

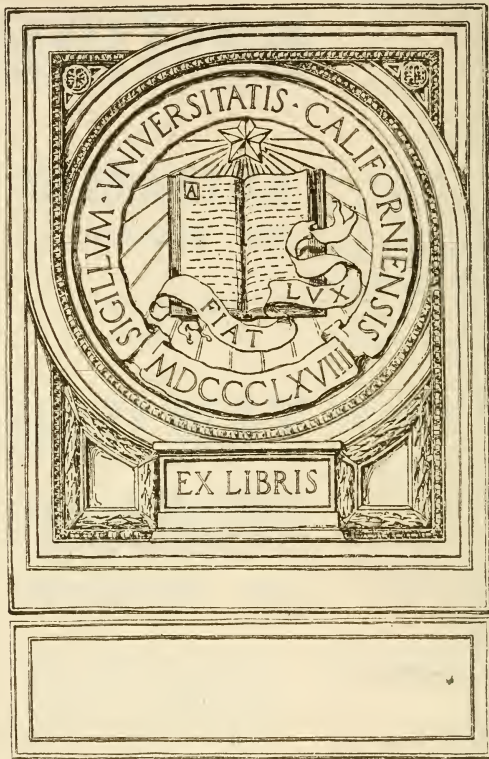
FOREIGN EXCHANGE
IN ACCOUNTS

G. JOHNSON

NORTH

ESTABLISHED 1809.

FIRE, LIFE,
ANNUITIES.



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ASSURANCE COMPANY LIMITED.

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Governor - Sir NEVILE LUBBOCK, K.C.M.G.

Assets exceed £6,200,000.

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... WHEN HEALTH IS IMPAIRED...*

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to act as

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on application to the Secretary.*

Head Office: **ROYAL EXCHANGE, LONDON, E.C.**

Nearest End Office: **44, Pall Mall, LONDON, S.W.**

FOREIGN EXCHANGE IN ACCOUNTS.

Dealing with the treatment in Accounts of the Foreign Exchange in general, and showing how the foreign accounts are amalgamated with the home accounts; organisation; banking and other arrangements, system of returns and other practical information.

BY

GEORGE JOHNSON, F.C.I.S.,

Corporate Accountant and Auditor.

LONDON:

EFFINGHAM WILSON,

54, THREADNEEDLE STREET, E.C.

1912.

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PREFACE.

THIS little work is the result of various notes made from time to time in practice both at home and abroad upon the treatment and effect of the foreign exchanges in the accounts of undertakings concerned in the working of businesses and concessions in foreign lands and accounting matters generally in relation thereto.

Excluding numerous firms and single ventures, the number of companies registered in the British Islands and carrying on businesses abroad with capital subscribed by the British public is enormous and increases year by year, whilst the work of organising and installing systems of account in branch houses abroad, and the audit of the business operations is of undoubted and growing importance. To commercial students, bookkeepers, accountants and others, therefore, a practical acquaintance with the currencies in which the foreign books are kept, the organisation of the accounting, the manner in which transactions are to be advised periodically to the London or registered office, their assimilation with the home accounts, and the drafting of the final accounts, balance sheets and profit and loss accounts, becomes indispensable.

Copious practical examples are interspersed throughout the work from actual practice, dealing with special points in the Spanish, Portuguese, Chilean, Argentine, Eastern and other currencies, the Argentine and Brazilian exchanges being noticed somewhat in particular.

The writer has had a long and varied experience *inter alia* in the preparation and auditing of accounts as well as in the organisation of systems of accounting and costing for foreign undertakings and hopes that what appears herein may be of service to those engaged in, or who may be required to take charge of the accounting of undertakings of the nature referred to.

G. J.

April, 1912

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IN
ACCOUNTS.

INTRODUCTION.

It is proposed to treat of some of the matters arising from the intervention of the Foreign Exchanges in relation to the accounting and finance of companies, single traders and firms registered and located in the United Kingdom for the purpose of developing and working undertakings and concessions situated abroad. In addition to the London directorate of this class of companies there is not infrequently a local directorate possessing more or less defined powers delegated to it by the London board for the local administration of the company's business, and for which provision is made in the Articles of Association.

Exchange, with its varying ramifications, forms one of the principal features in the accounting of such undertakings. The term, though probably somewhat ambiguous, may be interpreted as being the equivalent of the currency of one country to that in another expressed in terms of a rate. For instance, the standard value of the sovereign in the unit of French currency is 25·22½ francs—that is, the value of the quantity of pure gold in one

sovereign in London is equivalent to that represented by $25\cdot22\frac{1}{2}$ francs in Paris, and other things being equal this always should be the rate of exchange between France and England; but instead, it is merely the par rate, or, as it is sometimes called, the mint par of exchange. Other things are unavoidably unequal, and hence it is that the rate of exchange with which we have to deal in practice is the course of exchange or market rate. The deviations of the actual rate from the par rate may be attributed *inter alia* to the following factors, viz., demand for and supply of different forms of remittances, cost of transmission, interest, credit, and profit of bankers and others transacting exchange business, the first of these factors being governed by the balance of trade or the state of indebtedness of one country to another, loans, interest and dividends upon foreign investments and other elements.

It may be observed that a mint par of exchange between one country and another can be established only when the countries concerned have the same kind of metal as the standard. For instance, we speak of the mint par between England and France, England and Germany, and so on, because the standard in each of the countries named is gold. A mint par, therefore,

cannot be established between say a gold standard and a silver standard country, the rate of exchange being dependent upon the price of silver. In some of the countries which have adopted the gold standard the effect is purely nominal, paper, silver and bronze being the internal mediums of exchange.

As an illustration of how the mint par may be calculated we may take the mint par with Germany, which is £1 = 20·42945 Marks, viz.:—

Let x number of marks	= £1
and £1869	= 480 ozs. standard.
Standard ounces 12	= 11 ozs. fine.
Ounce fine 1	= 31·1034955
	grammes fine.

Grammes fine 500 = 1395 Marks.

$$\text{Then } \frac{1 \times 480 \times 11 \times 31\cdot1034955 \times 1395}{1869 \times 12 \times 1 \times 500}$$

= x , which is = 20·42945 Marks, and 1 Mark = 11·74 pence.

The commonly used phrases, difference on exchange, profit on exchange, loss on exchange and other similar phraseology are self explanatory.

Short exchange is an expression used to denote "cheques" and demand bills payable at sight or up to, say, 10 days' currency, whilst to

bills for longer periods the term long exchange is applied. The difference between short and long exchange is practically the difference between cash and credit, including certain charges. For instance, 90 days' exchange London on Paris being quoted at 25·30 deduce therefrom the short rate. Here the discount rate in Paris must be brought into the calculation; but we shall omit consideration for the moment of additional charges in respect of bill stamps and allowances for credit contingencies.

	Francs.
(a) 90 days' draft 	25·30
Deduct 90 days on	25·30
francs at discount rate on	
Paris, say 4 per cent. ...	·25
Short rate ...	<u>25·05</u>

The course of exchange between London and Paris and *vice versa* is quoted in a variable number of francs for £1, and the illustration simply means that £1 in London is equivalent to 25·05 francs in Paris now, or 25·30 francs in Paris three months later.

(b) 90 days' exchange Paris on London is quoted 25·16. Compute the short rate, discount rate in London 4 per cent.

	Francs.
90 days' draft 	25·16
Add 90 days on 25·16 francs	
at 4 per cent. 	·25
Short rate ...	<u>25·41</u>

which means that 25·41 francs in Paris is equivalent to £1 in London now, or that 25·16 francs in Paris is equal to a payment in London of £1 in three months' time.

It will be noticed that in the case of (a) we deduct the discount, and that in the case of (b) we add it, if we wish to arrive by calculation at the short exchange from a quotation of the long exchange. This is, of course, applicable only when the rate is quoted in foreign currency.

Let us take a case in which the rate is quoted in a varying number of pence, British currency.

(c) 90 days' exchange London on Lisbon is 49 $\frac{7}{8}$. Lisbon rate of discount 4 per cent.

	Pence.
90 days' draft 	49·875
Add three months' interest	
on 49·875 at 4 per cent.	·498
Short or sight rate ...	<u>50·373</u>

The course of exchange between London and Lisbon and *vice versa* is quoted by a smaller number of pence for 1 milreis or 1,000 reis, and the illustration means that 50·373 pence in London is equivalent to 1 milreis payable in Portugal at once, or that for a milreis payable in three months' time the price is 49·875 pence.

(d) 90 days' exchange Lisbon on London is 50. London rate of discount 4 per cent.

	Pence.
90 days' draft 	50
Three months' interest on	
50 pence at 4 per cent. ...	·50
	<hr/>
Short rate... 	49·50
	<hr/>

That is to say, 1 milreis in Portugal is equivalent to 50 pence in London payable in three months' time, or that 1 milreis is equivalent to 49·50 pence payable in London now.

It will be noticed that in the case of (c) we add the discount, and that in the case of (d) we deduct it, if we wish to arrive by calculation at the short exchange from a quotation of the long exchange. This is, of course, applicable only when the rate is quoted in British currency.

Proceeding a step, let us suppose that A B in London owes C D in Paris 2,505 francs, payable now. If A B buys a cheque or a draft payable at sight or on demand at 25·05, it will cost him £100 to have placed to his credit in Paris immediately 2,505 francs in full discharge of his debt. If, however, he purchased a 90 days' draft, he would probably pay for it (on the basis of the sight rate of 25·05) on the following lines :—

	Francs.
Short rate	25·05
Interest for three months on 25·05 at, say, 4 per cent. rate of discount in Paris	·2505
Bill stamp, say $\frac{1}{2}$ per mille	·0125
Contingencies, say	·0075
Long rate, say	<u>25·3205</u>

The long exchange in practice is practically the short rate with the charges just indicated.

Let us assume that A B purchased a draft for 2,505 francs at 25·32, payable in three months. This, which would cost £98. 18s. 8d., and remitted it to C D duly endorsed. C D would, no doubt, discount the draft for 2,505

francs with his bankers, charging the discount and bill stamp to C D ; so that, instead of discharging his debt in full, there would be a debit balance in C D's books against A B of 26·3025 francs, viz. :—

	Francs.
Amount of debt	2,505
<i>Less</i> discount charged by bank, say three months at 4 per cent.	25·05
Bill stamp, say $\frac{1}{2}$ per mille	1·2525
	<hr/> 26·3025
Amount credited to A B's account ...	<hr/> 2,478·6975

A B

Dr.	Francs.		Cr.
To Sundries	2,505	By Draft	2,505
„ Discount	25·05	„ Balance	26·3025
„ Bill stamp	1·2525		
	<hr/> 2,531·3025		<hr/> 2,531·3025
To Balance	26·3025		

Tale quale, or *tel quel* rates, are nett rates and arise as follow :—

A 90 days' draft for 2,000 francs is quoted at 25·35. What is the adjusted rate if two months of the period have expired? Interest 4 per cent. The *tel quel* rate may be computed as follows :—

	Francs.
Rate for three months ...	25·35
Deduct interest at 4 per cent. for two months on 25·35 ...	·169
Nett or <i>tel quel</i> rate ...	<u>25·181</u>

which may be proved as follows :—

	Francs.
Draft for ...	2,000
Add two months' interest on 2,000 francs at 4 per cent.	13·33
	<u>2,013·33</u>
	$2,013·33 \div 25·35 = \text{£}79. 8\text{s. } 6\text{d.}$
	<u>2,000·00</u>
	$2,000·00 \div 25·181 = \text{£}79. 8\text{s. } 6\text{d.}$

As further examples :—

The exchange of Rio Janeiro on London is quoted 16½. What is the cash equivalent, supposing discount rate in London to be 4 per cent.? In this instance the quotation is for a

90 days' bill; but the duration of the voyage and three days of grace must be considered. Let this time be, say, 21 days we have

	Pence.
90 days' draft. Quotation ...	16·125
Deduct interest for 121 days	
on 16·125 pence at 4 per	
cent.	·216
	<hr/>
	15·909
	<hr/>

∴ 1 milreis or 1,000 reis = 15·90 pence.

The rate for demand bills New York on London is 4·86. What should a New York banker give for a 90 days' sterling draft upon London for £1,000 to obviate any loss thereon? Assume that the discount rate in London is 4 per cent., and that the 90 days' bill is sent by the New York banker to his agents or correspondents in London for discount, that their commission is $\frac{1}{2}$ per cent. and a similar charge for bill stamp.

This is a case of the New York banker buying a long bill and selling his own demand draft against it.

Short rate	...	...	...	4·86
<i>Deduct—</i>				
London commission, $\frac{1}{2}\%$ per				
cent.	...	...	...	·0024
Bill stamp	...	...	...	·0024
Discount, 93 days at 4 per				
cent.	...	...	...	·0495
				<hr/> ·05
				<hr/> 4·81
				<hr/>

If the New York banker buys
a 90 days' draft at ... 4·81
and pays charges thereon... ·05

Total cost ... 4·86 per £1 and
sells a demand draft at ... 4·86 per £1, the
result is even, the draft of £1,000 in each case
costing £1,000.

CONVERSION OF FOREIGN CURRENCY.

The basis of the conversion of the foreign currency may be par, some other adopted rate, or varying rates may be employed during the period represented by the accounts according to the fluctuating values of the exchange. In the case of a depreciated paper or non-guaranteed

currency subject to constantly widely oscillating changes in the exchange, one of the usual courses is to value the currency of the periodical accounts rendered to the London office at average and other rates, thus eliminating potential inflation of values by recording in the books in London the currency figures at prevailing sterling values, all losses upon remittances being charged of course to profit and loss. In other cases in which the exchange is more or less stable the par rate method is adopted with or without subsequent valuations at the end of the year, all losses upon exchange in the meantime as already indicated being debited to revenue.

Let us consider briefly the application to the following illustration of the different principles to which we have referred.

Assume a company with its chief office in London working a concession in Oporto. The London office upon requisitions received from the local office orders goods as follows:—£50, £50, £150, £50 and £600, which are sent to Oporto, invoices being rendered in duplicate one for the London office and the other for the Oporto office. The invoices are dated July 5th, 12th, 20th, 22nd and 25th respectively, and one half of the goods is applied to construction (Capital Account), and the other half to objects

chargeable to revenue. In this instance the London office in the ordinary way credits the suppliers and debit Oporto office account, whilst Oporto office would credit London office and debit stock or some other account for the moment.

Let us apply to these facts the principles to which we have alluded, viz.:—

Case I. in which the books are kept on the par basis of 4,500 reis to £1 with (a) subsequent valuations according to the actual rates prevailing, and (b) no subsequent valuations.

Case II. in which there is no basic rate, the sterling valuations being the result of the employment of varying rates approximating the actual.

Case I. (a)—Let us suppose that the average sight rate of Oporto or Lisbon on London for the month of July was 49, that is 49 pence for 1 milreis, or 1,000 reis, one of the methods in vogue is as follows:—

	Rs.
£900 @ 49 pence per \$	= 4 : 408·163
£900 @ 4½ \$ per £	= 4 : 050·000

358·163

The London office debits Oporto office with £900 and credits the suppliers. The Oporto office debits stock, say, with 4 : 408·163 Rs. and credits London office with 4 : 050·000 Rs. and credits exchange with the difference, viz., 358·163 Rs., one-half of the exchange sum being applied probably in reduction of capital expenditure and the other half transferred to reserve. The London office account in the books in Oporto and the Oporto office account in the books in London are, of course, merely balancing accounts between the two offices, and should, therefore, always correspond.

Another mode of treatment which the writer has observed is as below:—

£900 @ $4\frac{1}{2}$ \$ par = 4 : 050·000 Rs.

4 : 050\$000 Rs. @ 49 = £826. 17s. 6d.

and £900—£826. 17s. 6d. = £73. 2s. 6d.

£73. 2s. 6d. @ $4\frac{1}{2}$ \$ par = 329\$062 Rs.

The London office, as before, debits Oporto office and credits the suppliers with £900. Oporto office debits stock, or some other account with 3 : 720\$937 Rs. at par = £826. 17s. 6d., exchange with 329\$063 Rs. at par = £73. 2s. 6d., and credits London office with 4 : 050\$000 = £900, one half of the sum at the debit of exchange being charged to Capital Account and the other half to revenue.

Case I. (b) Oporto office credits London office with £900 at par = 4 : 050\$000 and debits stock with the same amount.

As will have been gathered it is not always necessary, though it will be found generally convenient that the ledger kept at the London office for recording the currency accounts received regularly from the local office should possess columns for currency and sterling.

When the currency transactions for each period represented by the accounts are valued either at the end of the financial year, or oftener, as the precise practice may be, the sterling figures often require adjustment. Typical of such adjustment in such circumstances is the illustration exemplified below, which will serve at the same time to explain Case II.

(1)	Dr.	A B			A			Cr.
			\$	Sterling.		\$	Sterling.	
	1909.	To Sundries ...	10,000	416 13 4	1909. By Sundries ...	15,000	625 0 0	
	Dec. 31	" Balance ...	5,000	208 6 8				
			15,000	625 0 0		15,000	625 0 0	
<hr/>								
(2)	1910.	To Sundries ...	4,000	216 13 4	1910. By Balance ...	5,000	208 6 8	
	Dec. 31	" Balance ...	1,000	54 3 4	Dec. " Exchange ...	—	62 10 0	
			5,000	270 16 8		5,000	270 16 8	
<hr/>								
(3)			\$	Sterling.	1911. Jan. By Balance ...	1,000	54 3 4	
			5,000	270 16 8				
<hr/>								
		A B	\$	Sterling.	1910. Jan. By Balance ...	5,000	208 6 8	
	1910.	To Sundries... ..	5,000	270 16 8	Dec. " Exchange...	—	62 10 0	
			5,000	270 16 8		5,000	270 16 8	

The above is based on the Chilian dollar, the par of which is practically 1s. 6d. The exchange has, however, been as low as 4d. and 5d. The above illustration assumes that the dollar was valued at an average rate for the year: in case (1), 10d.; in case (2) at 13d. for the years 1909 and 1910 respectively.

It will be seen that an adjustment of the sterling in 1910 is necessary, which is effected by crediting A B and debiting exchange with £62. 10s.

Example (3) shews, of course, that if the total currency debit has been the same as the currency credit, the same amount of sterling adjustment would have been unavoidable.

The revenue of some companies may be in various currencies to be subsequently realised in sterling, or in that of the country in which the company works. For instance, it may be more advantageous upon occasion for a South American Copper Mine to dispose of its production in the United States than, say, in the United Kingdom, in which case the realisation of the shipments will be in U.S.A. dollars, which may be remitted either to the Company in London in sterling, or to the State in South American dollars, or the Company may draw against the U.S.A. realisation. The usual practice in connection with copper ore shipments is to arrange with a firm of brokers for its sale as shipments arrive. Those in authority at the mines ship the ore, and it is a common custom to present the shipping documents to the bank endorsing them in its favour, when on the *pro forma* account submitted the bank advances

75 or 80 per cent. of the value of the shipment. The ore is sold for account of the bank when the proceeds as shown by the account sales rendered are placed to the credit of the Company, less the advance and interest thereon. The usual entries in such circumstances are debit, say, Shipment No. 1 Account and Credit Stock Account with the quantity of ore shipped at cost. Debit Shipment No. 1 Account with the carriage, freight, and any other charges thereon, crediting cash or other Account concerned. Debit cash and credit the bank with the advance, debit Interest Account and credit the bank with the interest thereon. With the proceeds of the shipment debit cash and credit Shipment Account; credit cash and debit the bank with the repayment of the advance and the payment of the interest charged, the balance of the Shipment Account being transferred to Profit and Loss Account.

On the other hand, a tramway company operating say in Brazil receives all its revenue in reis, which are employed, of course, in liquidating expenditure incurred in that country, and in making home sterling remittances for the satisfaction of dividends, interests, purchase of machinery and other home requirements.

If the business be that of manufacturing, say, the sales being effected in London and the revenue receivable in sterling, the currency expenditure abroad will consist principally of cost of manufacture, local expenses and any form of expenditure, whether it be of capital or revenue upon the establishment or equipment of the undertaking. Such a business, therefore, is not directly much affected by the exchange.

To put the local office of a business of the nature indicated in possession of funds, it is a common practice for that office to draw periodically upon the London office demand or sight drafts in sterling, which the local office sells, it may be to its bankers or anyone else; and the lower the rate when it is expressed in British currency, the greater the realisation in currency of the draft. In concerns in which the revenue is receivable in local currency wide fluctuating differences arising from the instability of the exchange of currency for sterling are not infrequently a fruitful source of apprehension and anxiety to those who have the care of the finances in their charge.

For instance, we may have the rate of exchange in Lisbon on London quoted at 41½d., which corresponds with a rate of 5\$731 per £ sterling, and within a few minutes a drop to

5\$660, a considerable difference in the prices for liquidating gold obligations. Recently the trading result of a company operating in Singapore and China was adversely affected by the unfavourable rate of exchange for drafts on China ruling throughout the year, the average rate being 22·22 per cent., which means that on an average during the period 122·22 Hong Kong dollars only realised 100 Straits dollars. The realisation of sales in the former currency, and, for the greater part, convertible into the latter, was attended, therefore, by a rate of exchange causing a heavy financial expense to the company.

BALANCING ACCOUNTS BETWEEN HOME AND LOCAL OFFICES.

The principal balancing accounts as between the London and local offices are, in the books of the local office, a London Office Account, and in the books of the London office, a Local Office Account. The following illustration with the explanatory comments thereon will serve to elucidate the principle of these accounts:—

In the London Ledger:—

HAMBURG OFFICE ACCOUNT.			
<i>Dr.</i>	Marks.	Sterling.	<i>Cr.</i>
(A) Cash	102,150·00	5,000	
(B) do. (Machinery) ...	204,300·00	10,000	7,000
(C) do. (Shipping Charges)	10,215·00	500	10,000
Balance	33,709·50	1,650	150
	<u>350,374·50</u>	<u>17,150</u>	
			17,150
			<u>1,650</u>
	Balance ... ..	...	33,709·50

In the Hamburg Ledger:—

LONDON OFFICE ACCOUNT.			
<i>Dr.</i>	Marks.	Sterling.	<i>Cr.</i>
(D) Cash (nett proceeds of shipment) ...	143,010·00	7,000	5,000
(E) do. (Final Instalment)	204,300·00	10,000	10,000
(F) do. (Interest)	3,064·50	150	500
	<u>350,374·50</u>	<u>17,150</u>	1,650
			17,150
			<u>1,650</u>
Balance	33,709·50		33,709·50

Explanation of Items :—

LONDON LEDGER.

Par Rate 20·43 = £1.

(A). Here £5,000 cash has been remitted from the London office to the Hamburg office, which at the par rate = 102,150 marks. In the London Accounts cash is credited and Hamburg Office debited.

(B). Machinery of the value of £10,000 has been paid for by the London Office and charged to the Hamburg Office, which at the par rate = 204,300 marks.

(C). Similarly in regard to shipping charges which are equivalent to 10,215 marks.

(D). A shipment having been made by the Hamburg office, for which the London office receives cash £7,000 = 143,010 marks, the Hamburg office is credited and cash debited.

(E & F). The Hamburg office having made the necessary payment of an instalment—payable by the London office—the Hamburg office is credited and the personal account of the payee debited, the personal account being also credited with the interest which is transferred to Interest Account.

For the counterpart of the Hamburg Office Account in the London Ledger we have the

London Office Account in the Hamburg Ledger illustrated above. It will be seen, therefore, that the basis of the accounts is that all remittances by the London office to the Hamburg office and payment or expenditure incurred by the London office for the Hamburg office are charged to, and are accountable by, the latter office, and *vice versa*, all remittances by the Hamburg office to the London office and payments or expenditure incurred by the Hamburg office on account of the London office are charged to and are accountable by the latter office.

The two accounts just described being merely balancing accounts, the amount of their balances should always agree, they, of course, being necessary to balance the local office and London Office Accounts either separately or as a whole. It is desirable where there are numerous transactions between the home office and the local office to keep the remittances and any other accounts of magnitude separately from the general transactions, thus facilitating agreement. So far we have not introduced the question of exchange in the *pro forma* illustrations. Let us take item A, which is a remittance of £5,000 from London to Hamburg. Supposing that it were credited by the Company's bankers to the Hamburg Account at 20·38, which equals

101,900 marks, here is a loss on exchange (£5,000 at par = 102,150 marks, and £5,000 at 20·38=101,900) of 250 marks, which at par = £12. 4s. 9d., and which would be accounted for in the Hamburg books by debiting cash and crediting London office with 101,900 marks = £4,987. 15s. 3d., and debiting exchange and crediting London office with 250 marks = £12. 4s. 9d.

Monthly or other periodical advices of debits and credits as between each office is the invariable practice, the form of which may be as follows, or it may be designed in accordance with the requirements of the particular business :—

Date.	Particulars.	ACCOUNT.		AMOUNT.		Remarks
		Debit.	Credit.	Currency.	Sterling.	

The balance of the HAMBURG OFFICE A/c—including the LONDON OFFICE A/c—above is $\frac{\text{Dr.}}{\text{Cr.}}$ M..... £..... as shown by the HAMBURG OFFICE A/c in the LONDON OFFICE A/c books. LONDON OFFICE A/c HAMBURG OFFICE A/c

EFFECT OF EXCHANGES.

Let us notice briefly the effect of the exchanges if the undertaking be situated in a country the rate of exchange with which is quoted in—

(a) British currency, as, say, in Portugal.

(b) Foreign currency, as, say, in France.

Taking the case of (a) the higher the rate the better for the Company when converting currency into sterling, as the greater the equivalent sterling value of the assets in Portugal, and if practically the whole of the revenue is received in Portugese currency and is remitted to London, with the exception of that necessary for the carrying on of the undertaking in Portugal, the higher the rate the less number of reis required to realise any given sum in London. The lower the rate the greater the depreciation of the currency, and consequently the worse for the Company, a larger number of reis being necessary to attain any given sum in London. In remittances from the local office to the head office a debit balance on exchange will arise when the rate is lower than the par rate, and a credit balance when the rate exceeds the par rate, whilst in remittances to the local office a debit balance will occur when the rate

of exchange exceeds par, and a credit balance when less than par. Turning to (b) the result is the converse of that just stated. The lower the rate the better for the Company, as the greater the equivalent sterling value of the assets in France, and if practically the whole of the revenue is received in French currency and is remitted to London, with the exception of that necessary for the carrying on of the undertaking in France, the lower the rate the less number of francs required to realise any given sum in London. The higher the rate the greater the depreciation of the currency, and consequently the worse for the Company, a larger number of francs being required to realise any given sum in London. In remittances from the local office to the head office a debit balance on exchange will arise when the rate of exchange is higher than the par rate, and a credit balance when the rate is less than par, whilst in remittances to the local office a debit balance will ensue when the rate is lower than par, and a credit balance when in excess of par.

In the case of (a), therefore, when the rate is high it is frequently desirable to contract as far ahead as possible for remittances at as high a rate as can be obtained, so that there may be as small a loss as possible upon exchange in the

conversion of the reis into sterling. Again assuming that A in Lisbon (the par rate between England and Portugal on the basis that $4\frac{1}{2}$ milreis = £1 is 53·33 pence per milreis, the variable rate being expressed in pence per milreis) owes £100 to B in London, and he discharged the debt at 50 it would necessitate an expenditure in Lisbon of 480,000 reis, and if at 48 500,000 reis, consequently the more pence A can obtain for his milreis the less number of milreis that he has to part with when remitting to London in sterling, and conversely when remitting from London to Lisbon, that is, converting sterling into milreis, the less number of pence that B has to pay the greater number of milreis produced by any given sum in sterling. Converting a remittance of £100 from London to Lisbon when at 50 would only produce 480,000 reis, whereas at 48 it would realise 500,000 reis, and so on.

EXCHANGES QUOTED IN PERCENTAGE DISCOUNTS AND PREMIUMS.

The South African Exchanges are quoted in percentage discounts and premiums. For example, London sight drafts on South Africa

may be at $\frac{1}{2}$ per cent. discount, and South African 90-day drafts on London may be at $\frac{11}{16}$ discount. Supposing a manufacturer sends machinery to Cape Town for a nett amount of £1,000, and draws upon his customer at sight, the draft on this basis would be at a discount of $\frac{1}{2}$ per cent. It is, therefore, sometimes necessary to consider what amount should be added to the invoice to cover such discount. If we multiply £1,000 by 100 and divide the result by 100 less $\frac{1}{2}$, that is $99\frac{1}{2}$, we get £1,005. 0s. 6d., which should be the amount of the invoice. An addition of £5. 0s. 6d. is therefore necessary. This may be proved by deducting $\frac{1}{2}$ per cent. from £1,005. 0s. 6d., which will give us £1,000. If the exchange be at a premium, we should of course add the premium to 100 instead of deducting as in the case of a discount.

Similarly with the Australian Exchanges, which are quoted at buying and selling prices per £100. For example, the buying rate of a demand draft of London on Australia is at the present time quoted at $98\frac{1}{4}$, and the selling rate at par, that is 100, whilst as regards Australia on London, the buying rate for demand drafts is $99\frac{1}{2}$, and the selling rate is quoted at a premium of $\frac{3}{8}$ per cent., and so on. Whilst on the subject of percentage quotations it may be

incidentally observed that certain Canadian securities are quoted per 100, but as the par is £102. 14s. 10d. for £100, the actual quotation is thereby increased. For instance, if a stock be quoted at 86 per cent., the real price is a little higher because if it is 86 per 100 it is something more in proportion for £102. 14s. 10d.

£100 at 4s. per dollar = 500 dollars.

\$500 at the fixed rate of $\$4.86\frac{2}{3}$ per £1, *i.e.*, 4s. $1\frac{4\frac{60}{60}}{14\frac{60}{60}}$ d. per dollar = £102. 14s. 10d.

REMITTANCES TO AND FROM THE LOCAL OFFICE.

During the development of the undertaking it is usually necessary to make remittances to and from the head office. In all probability the London office has an account with a bank, financial or exchange house which has a branch, agent, or correspondent in the town or district in which the local office is situated, and through which any remittances generally will be made. These remittances are transmitted of course at a varying rate of exchange, which includes the bankers' charges with the exception that often in the case of telegraphic transfers the cost of

cabling is charged separately. As an example, we will suppose that it is proposed to make a remittance from London to some town in Spain, in the district of which an English company is working a mining concession, assuming that the remittances are arranged to be made through an exchange house or a banker in London on the terms of $\cdot 05$ pesetas less than the official sight rate of exchange at Madrid the day after the remittance has been received there on remittances of £1,000 and upwards, and $\cdot 10$ pesetas on remittances below £1,000, whilst for cable remittances double the foregoing rates without any charge for cable. A statement, which is in the ordinary form, with currency columns showing the payments and receipts to and by the bank or exchange house, is sent to the London office with a note probably as follows:—

Barcelona

Muy Sr. mio—Examinado el extracto de cuenta que me tiene remitido cerra do el de tengo el gusto de manifestarle que es conforme el saldo a favor de

Ptas. que paso como primera partida en cuenta nueva.

De. V. aftmo. atto. S.S.,

q.b.s.m.,

JUAN MALAGA Y CIA., Limitada.

The local or Spanish office of the company on a remittance of £500, at the rate of 27 pesetas, would be placed in credit to the amount of 13,450 pesetas, that is, the result of £500, at 27 less £500 at 10.

Spain, it may be noted, keeps its accounts in pesetas and centimos, which respectively are equal to the French franc and centime. The exchange on London, however, is quoted in pence per duro or peso, a duro being equal to 5 pesetas. London, in turn, quotes Madrid, Santander, Malaga, Cadiz, Barcelona, Bilbao, Seville and other Spanish places also in pence per 1 peso. It is a usual practice, however, for no charge to be made for the cable in remittances of £5,000 and over. Banks usually provide forms to be filled up for cable remittances, *e.g.* :—

THE A B C D BANK, LIMITED.

London, *January 6th*, 1911.

Kindly cable your Calle Cuyo X. Branch to pay to
the equivalent of the sum of £..... in
Argentine gold currency at rate
of exchange against receipt in duplicate.

Amount of transfer ... £

Cost of cable £

..... *Signature.*

..... *Address.*

..... *Date.*

In the ordinary course, when making a remittance to the local office the common practice is for the London office to instruct its bankers to place to the credit of the local office with a certain bank in the local town, by cable or otherwise as may be required, a certain sum. If the bank in London has a branch which has the local account, the sum is placed to the credit of the company at the branch. All that passes through the London office pass book is the amount of sterling remitted, and if by cable, the cost of the cable. At the branch the sterling is converted into the foreign currency at the quoted rate. When the London office receives regular periodical remittances from abroad, a contract or arrangement is sometimes effected with the local bankers whereby they agree to make the remittances at a certain rate, for a specific period. Whether such contracts are financially successful so far as the company is concerned can only be determined towards the end of their currency. They may be regarded in the light of an insurance against the occurrence of a potential adverse exchange. For example, supposing the local office of an English company in Portugal cables to the London office "can sell £20,000 at 50 over 6 months." This means, in effect, that the local office can

secure gold remittances at 50 pence per milreis during the period named up to £20,000. If the rate falls during the currency of the contract the company gains, if it rises it can sell any remittances that it may not require and thus make a profit. If the remittances are not taken up during the period, an extension at a certain rate of interest is sometimes allowed, that is, interest is charged by the bank from the termination of the contract on the amount not then taken to the date when it has been remitted, which will be, of course, some time during the extended period. We have observed that when the rate is fixed in advance, and it is eventually unlikely that the company will take for its own business the whole of the remittances arranged for, the company may be able to sell some of them at a profit. For instance, the local office of a company at Oporto sells to A B a sterling draft of £100 at 49, which at the rate at which the company has contracted with the bank, say, 49·50, means a withdrawal of 484\$848, *i.e.*, ($\frac{£1}{49\cdot50}$). A B hands his cheque to the company for 489\$796, *i.e.*, ($\frac{£1}{39}$), the agreed price. The bank is then debited and A B credited with 489\$796, whilst A B is debited and the bank credited with 484\$848. The profit on exchange is, therefore, 489\$796 —

484\$848 = 4\$948, which at par = £1. 2s.
The account of A B is balanced by debiting it
and crediting exchange each with 4\$948.

It may happen in certain districts abroad that the local office of the Company may issue to traders and others, wishing to make home and other remittances, demand three days and other drafts of varying usance drafts upon the London office in exchange for cash, making a profit on the selling rate, or it may draw for its own local purposes such drafts upon the London office and by pre-arrangement cash them to a certain extent with a local bank which probably has its chief office in London, the bank being secured by a sufficient cover or deposit.

Such an arrangement may take the following form, viz.:—

LONDON.

To the A B BANK.

DEAR SIR,

We shall be glad if you will authorise the manager of your branch in.....
to cash at his current buying rate of exchange drafts on demand and at three days' sight whichmay draw upon the Company in London to the extent of £.....
for which we enclose cheque for the deposit of

£..... The drafts to be payable in London and the authority established under this guarantee to remain in force at the said branch until....., in consideration whereof.....hereby undertake duly to accept and to pay the drafts of the saidto the extent named.

Yours truly,

.....

BANKING ARRANGEMENTS OF LOCAL OFFICE AND CONTROL OF FUNDS.

With regard to the banking arrangements of the local office, the following is a system which works well in practice where the nature of the business and the general circumstances are favourable to its adoption. In the usual course of things the writer has applied it to gas, water, tramway, telegraph and telephone undertakings operating abroad. At the end of each month or any other period the local office submits to the

London office an estimate of the amount that it is likely to require during the ensuing month, which, after approval by the Board in London, is dealt with as follows. It may be well to explain that all receipts of cash at the local office are paid into the London office account of the company at the bank abroad, and the London office advises both the local office and the bank abroad that the former may draw against the London office account to the sanctioned amount of the estimate. The amounts thus withdrawn from the London office account are transferred to the local office account, against which the local cheques are drawn. The bank sends, say, monthly to the London office a statement of the receipts paid to the London office account there, which are checked with the periodical advices received from the local office. It also sends periodical statements of the transfers therefrom to the local office bank account, and the payments thereout, which may be checked with the monthly cash accounts rendered by the local office to the London office, which we shall presently notice. All home remittances to the London office are, of course, transferred from the London office account at the local bank. No account of the head office bank account is kept in the local books.

It may be interesting to show the usual ruling of a pass book for moneda legal (paper money) in the Argentine:—

Moneda Legal.

Senor in cuenta corriente,

A B C D Bank.

Fecha.	No del cheque.	No del deposito.	Debito.	Credito.	Saldo.

The following illustration shows the usual entries that are necessary in regard to banking transactions and remittances. Assuming on a certain date total cash receipts in milreis 8,000\$000 which are paid into the local banking account of the head office, transfers therefrom to London of 3,750\$000 at 52 and 2,250\$000 at 52½, a transfer to the local account of 750\$000, cash drawn from the local account, 500\$000, and sundry payments thereout, 480\$300, charges by bank in head office account, viz.:—postages 2\$500, imposts 3\$600, and cheques, &c., 14\$250.

Local Cash Book.

<i>Rs.</i>		<i>Rs.</i>	
Sundry Debtors to be credited ...	8,000,000	London Office for amount paid to London Office Account... ...	8,000,000
London Office for amount trans- ferred from Head Office Account to Local Account ...	750,000	Local Bank Ac- count for amount received from Head Office Ac- count and paid into the former Account... ...	750,000
Local Bank Account for amount drawn therefrom ...	500,000	Sundry Creditors Account to be debited	480,000

The balance equals the cash on hand.

Pro forma Entries in Local Ledger:—**SUNDRY DEBTORS.**

<i>Rs.</i>
| Cash 8,000,000

LONDON OFFICE.

<i>Rs.</i>	<i>Rs.</i>
Cash 8,000,000	| Cash 750,000

LOCAL BANK ACCOUNT.

<i>Rs.</i>	<i>Rs.</i>
Cash 750,000	| Cash 500,000

SUNDRY CREDITORS.

<i>Rs.</i>
Cash 480,000 |

London Office Ledger and General Cash Book.

<i>Dr.</i>	GENERAL CASH BOOK.	<i>Cr.</i>
A & B Bank re-		
mittances, viz. :		
\$3,750,000 @ 52	812 10 0	
\$2,250,000 @ 52½	492 3 9	

Ledger.

<i>Dr.</i>	BANK CHARGES.	<i>Cr.</i>
	<i>Rs. Stg.</i>	
Postages ...	2,500 0 11 2	
Imposts ...	3,600 0 16 0	
Cheques, etc. ...	14,250 3 3 4	

<i>Dr.</i>	EXCHANGE ON REMITTANCES.	<i>Cr.</i>
	<i>Stg.</i>	
Bank ...	28 12 11	

<i>Dr.</i>	A & B BANK.	<i>Cr.</i>
	<i>Rs. Stg.</i>	<i>Rs. Stg.</i>
Cash 8,000,000	1,777 15 7	London
		Remit-
		tance . 3,750,000
		812 10 0
		Do. ... 2,250,000
		492 3 9
		Exch'ge 28 12 11
		Local
		Office
		Trans-
		fer ... 750,000
		166 13 4
		Postages 2,500
		0 11 2
		Imposts . 3,600
		0 16 0
		Cheques. 14,250
		3 3 4

<i>Dr.</i>	LOCAL OFFICE.	<i>Cr.</i>
	<i>Rs. Stg.</i>	<i>Rs. Stg.</i>
Cash ...	750,000 166 13 4	Cash ... 8,000,000
		1,777 15 7

It will be seen that the amount of the balance of the Local Office Account in the London books agrees with that of the London Office Account in the local ledger. The balance of the Head Office Bank Account in local currency is \$1,229:650, which at par = £273. 5s. 1d., with which sum the balance of the sterling columns agree, thus maintaining the basis of par in the books.

The books being kept on the par basis it will be seen that there is a loss on exchange on the home remittances of £28. 12s. 11d., which is arrived at as follows:—

		£	s.	d.
Rs. 3,750 : 000 @ 52	=	812	10	0
„ 2,250 : 000 „ 52½	=	492	3	9
		<hr/>		
		£1,304	13	9
Rs. 3,750 : 000 at par	=	833	6	8
„ 2,250 : 000 „	=	500	0	0
		<hr/>		
		1,333	6	8
		<hr/>		
Loss on Exchange	...	£28	12	11
		<hr/>		

which, as shown, is credited to the bank in the sterling column, and debited to Exchange in Remittances Account. At the head office a “local office” ledger is kept, which is, in effect, a summary of the actual local ledger kept at the local office. This local office ledger in the head office is posted from a

separate cash book, the entries in that book being derived from the monthly cash statements rendered by the local office (see form of cash statement below) and from the local office journal also kept at the head office, the entries in that journal being made from statements and advices rendered by the local office to the head office to agree and complete, *inter alia*, the accounts in the local office ledger kept at the head office with those in the actual local ledger.

The X Y Z Copper Mines, Limited.

Cash Statement for Month of.....19.....

CASH ACCOUNTS.

The form of cash statement is as below:—

Receipts.	Ledger Folio.	Currency.	Sterling.
Cash on hand at beginning of month			
1. Cash received during the month:— Accounts to be credited. Schedule A. Ore Sales ... B. Sundry debtors ... C. Interest and discount .. D. London office .. E. F.			
2. Bank (local account) for cash drawn therefrom during the month			
3. London office for cash received from Bank (London account) and paid into local account as per contra			

Payments.	Ledger Folio.	Currency.	Sterling.
1. London office for cash paid into the Bank (London Office Account)			
2. Bank (local account) for cash drawn from Bank (London Office Account) and paid into local account			
3. Payments during the month:— Accounts to be debited. Schedule G. Stores H. Mining ... Plant and Machinery I. Railway J. Buildings K. Rolling Stock L. Wages M. Salaries N. Law charges O. Printing & Stationery P. Rent, Rates, Taxes and Insurance Q. Directors' Fees R. Water and Gas S. Freights and duties T. Office furniture U. Office and General Expenses V. London Office W. Stock			
Balance, being cash on hand			
Balance of local account at Bank			
Dr. \$			
Cr. \$			

As will be gathered, the cash account is accompanied by schedules which furnish details of the debits and credits, and in which provision is made for capital and revenue allocations.

Taking wages Schedule L, in the case of a gold mining company, we may have appropriations to such titles as, development, ore extraction, ore treatment, power, repairs and maintenance, assaying and sampling, construction and equipment, general expenses, &c. It is from the schedules that the entries are made in the separate cash book to which we have referred, which is kept in the London office, care being taken to see that the total of the allocations contained in each schedule agrees with the amount indicated in the cash account. Development would include shaft sinking, driving, cross-cutting, rising, winzing, drilling, &c., ore extraction would embrace breaking ore, filling stopes, trucking ore, &c., whilst ore treatment would take cognizance of rock-breaking, transport, milling, concentration, roasting, cyaniding concentrates, fine grinding concentrates, fine grinding sands, cyaniding by percolation, cyaniding by agitation, filter pressing, precipitation and smelting, disposal of residues, &c., &c., which are all included separately in the periodical cost return.

The Schedule L would be somewhat as follows:—

Schedule L.

Allocation of wages for the month of.....19...

No.	Name.	Description.	Time.	Rate.	Amount.
					Allocation.
					Develop- ment.
					Ore Extraction.
					Ore Treatment. Construction and Equipment.
					Repairs and Maintenance.
					General Expenses.

PURCHASES.

In some cases the greater portion of the purchases is undertaken and paid by the London office, duplicate invoices being sent to the local office. The sterling of these invoices is converted into the foreign currency by the local office at the par rate and passed through the books, crediting the London office and debiting stock and other particular accounts concerned, whilst the London office debits the local office and credits the personal or other accounts affected. Shipping and other charges

are similarly treated. Some of the invoices may be found rendered in foreign currency, in which event they are converted by the London office into sterling at the rate payable, the local office being advised of the sterling equivalent. The accounts are passed, of course, through the books, less the trade discounts; the cash discounts being dealt with in the London office in the ordinary way without reference to the local office books. As examples:—

- (1) Amount of invoice 5,000 francs, payable at 24 = £208. 6s. 8d., amount to be advised to local office for conversion at par.

- (2) Goods invoiced at say \$5,000 { Argentine
currency.

Less 5 per cent. discount 250

4,750

Freight and charges ... 150

\$ m/p 4,900

@ 227·27 = \$ oro 2,156⁰²

@ 48 = £431. 4s., amount payable, and to be advised to the local office.

[m/p means moneda papel or paper money;
m/n means moneda nacional or national money; m/l means moneda legal or legal money; c/l means curso legal; o/s oro sellado, &c.]

BRIEF SKETCHES OF ARGENTINE AND BRAZILIAN EXCHANGES.

Here, perhaps, we may enter into some little explanation of the Argentine and Brazilian currencies, prefacing our remarks with a few facts in regard to the British gold standard.

Now, 40 lbs. (troy) of standard gold are equal to 1,869 sovereigns, which makes 1 lb. (troy) of standard gold represent 46·725 sovereigns ($\frac{1,869}{40 \text{ lbs.}}$). In 40 lbs. (troy) there are 230,400 grains, so that if we divide that quantity by 1,869 sovereigns we have 123·27447 as the weight in grains of £1. Forty lbs. (troy) equal 480 ozs. (troy), consequently $\frac{1,869 \text{ sovereigns}}{480 \text{ ozs.}}$ gives us £3. 17s. 10½d., which is the unit price of an ounce of standard gold.

In the British Islands the fineness for gold is $\frac{916\frac{2}{3}}{1,000}$, which is only another way of stating $\frac{11}{12}$ ths, and which means that $\frac{11}{12}$ ths of the total are pure gold, and that the remaining $\frac{1}{12}$ th is alloy.

As the weight of almost all foreign coinage is expressed in grammes, we may here establish the data for the conversion of the gramme in

British terms. As we all know, 1 oz. troy is equal to 480 grains, and as 1 gramme = 15·43235 grains, an ounce troy = 31·102 grammes, *i.e.* $\left(\frac{480}{15\cdot43235}\right)$. It is obvious if a sovereign = 123·27447 grains of standard gold that it contains 113·00159 grains of pure gold, *i.e.* $\left(\frac{123\cdot27447}{1\frac{1}{2}\text{ths}}\right)$.

If we divide 123·27447 grains of standard gold in £1 by 15·43235 grains in 1 gramme, it gives us the weight of standard gold in grammes in £1, which will be found to be 7·98805. If we wish to ascertain the weight in grammes of pure gold in £1, we merely take $1\frac{1}{2}$ ths of 7·98805, the number of grammes of standard gold in a sovereign, thereby reducing it to 7·32238, the number of grammes of pure gold in an English sovereign.

We have established now the following data, *viz.*:—

(a) If 7·98805 grammes of standard gold = £1, a gramme of standard gold = $\left(\frac{240 \text{ pence}}{7\cdot98805}\right)$ 2s. 6d. ·0448.

(b) Similarly if 7·32238 grammes of pure gold = £1, a gramme of pure gold = $\left(\frac{240 \text{ pence}}{7\cdot32238}\right)$ 2s. 8d. ·776.

Let us take, in the first instance, the Argentine Republic, which comprises the following provinces and territories, viz.: Provinces—Buenos Ayres, Corrientes, Entre Rios, Santa Fé, Mendoza, San Juan, Rioja, Catamarca, Tucuman, Salta, Jujuy, Cordoba, San Luis and Santiago del Estero. Territories—Los Andes, Chaco, Misiones, Formosa, La Pampa, Neuquen, Rio Negro, Santa Cruz, Chubut, Tierra del Fuego. To enter into any sketch of the progress of the capital of the Argentine—its reluctance, to use a mild word, to become a federal province—would occupy too much space; and we should have to go back, according to the *Argentine Standard*, to the days when the streets in the centre of the city were lighted by oil lamps, when the *serenos*, or night watchmen, carried lanterns.

The unit of the Republica is the gold peso or dollar of 100 centavos, which weighs 1·6129 grammes, and, as the fineness is $\frac{9}{10}$ ths, we have the equivalent in pure gold of

$$\begin{array}{r}
 1\cdot6129 \\
 \frac{1}{10}\text{th } \cdot16129 \\
 \hline
 1\cdot45161 \text{ grammes.}
 \end{array}$$

We found in our introduction that 1 gramme of pure gold was equal to 32·776 pence, $\therefore 32\cdot776 \text{ pence} \times 1\cdot4516 = 47\cdot5776 \text{ pence}$, the theoretical unit par of the Argentine dollar—theoretical, because of the paper currency. The par value of £1 sterling is, consequently, in Argentine currency, 5·04 gold dollars $\left(\frac{\text{£}1}{47\cdot5776}\right)$.

Probably one of the greatest national troubles has been the paper currency. The large emissions of paper increased from \$160,000,000 m/c in 1859 to more than \$373,000,000 in 1862. In 1863 many of the principal merchants proposed to form a national bank for the redemption of the paper money and to suppress the Government bank of issue, the Casa de Moneda. In the same year the metric decimal system was adopted and a law passed declaring the legal currency of foreign coins. Another law was passed in 1863 repealing the law which had fixed the convertible value of paper currency at \$20 per silver dollar, and authorised the Custom House to receive paper money at the market rate in payment of duties, the rate to be declared by the National Central Office at the end of every month, according to the average of the quotations. On July 1st, 1864, gold ounces were quoted at 467, and the silver dollar and

pound sterling were worth 29 m/c and 143 respectively. In the following September a Bill was presented to the Buenos Ayres Legislature for the redemption of the paper currency at the rate of a silver dollar of 16 to the gold ounce in exchange for \$25 m/c. The price of the gold ounce was \$414 m/c, and of the £ sterling \$126 $\frac{1}{4}$ in June, 1866. After the conversion of 1866 at the fixed rate \$25 m/c to the silver dollar of 16 to the gold ounce, there was no fluctuation until 1876, when the paper currency fell below par value. This continued until 1883, the premium fluctuating up to 35 per cent. By the law of 1887 of guaranteed banks, all the provinces of the Republic were authorised to establish note-issuing banks of their own, provided that gold was lodged at the National Treasury as security for the notes issued. The results of this were seen subsequently in the failure of the National Bank, the Provincial Bank of Buenos Ayres, and of all the provincial banks created under the law, the existence of inconvertible paper amounting to upwards of \$300,000,000, and the creation of foreign debts.

The premium on gold at the end of the year 1867 was 32 per cent., whilst the average premium during 1891 was 273 per cent., the previous year closing with a premium of 215 per cent.

In October, 1899, Law No. 3,871, which is known as the Conversion Law, was passed. It provided, *inter alia*, for—

(1) The convertibility of the paper money into gold at 44 cents for every 100 cents paper, thereby fixing \$227.27 m/n as the minimum legal value of \$100 gold.

(2) The creation of a conversion fund, guaranteeing the paper currency at the legal rate.

(3) The Executive Authorities to determine the time the conversion should commence.

(4) The allocation of specific resources to the conversion fund.

(5) The authorisation of the Caja de Conversion to issue the notes necessary to give effect to the convertibility of the paper currency. For instance, a person depositing 44 cents gold would receive a convertible paper dollar legal currency, which could be exchanged later, if so desired, for 44 cents gold.

In 1901, and by Law No. 4,056 of 1902, authority was given to the Government to pay for the purchase of war material, &c., out of the common fund.

The Caja de Conversion was thus created and charged with the duty of the issuing of convertible notes, and the conversion of the paper money, including nickel, copper, &c., at 0·44 gold for each currency dollar.

The value of the paper dollar is readily ascertained. If 227·27 paper \$ = 100 gold \$, and 1 gold \$ = 47·577 pence, we have the fixed value of the currency dollar in pence as 20·93, viz. $\left(\frac{47·5776}{227·27}\right) \times 100$.

£1 = 5·04 gold, or \$11·45 moneda nacional, or paper; \$1 o/s = \$2·27 m/n, and \$1 m/n = \$0·44 o/s.

In a similar manner we may convert German marks and French francs, as well as Spanish pesetas and Italian lire, into oro sellado, and moneda legal. Now

$$\begin{array}{l} 240 \text{ (pence)} \\ \hline (5·04 \text{ dollars gold} = 1 \text{ Libra Esterlina, } \pounds 1) \\ = 47·619 \text{ pence par of 1 dollar oro.}^* \end{array}$$

A German mark (Marco Alemania) = 11·7619 pence on the basis that 20·405 marks = £1.

$$\therefore \frac{11·7619}{47·619} = \cdot 247\$ \text{ o/s, oro sellado, or gold.}$$

The equivalent in moneda nacional (paper) to a German mark is ·5613, viz.:—

$$\frac{227·27 \times \cdot 247}{100} = \cdot 5613\$ \text{ papel.}$$

*NOTE.—The gold par is 47·5776; but it is taken as 47·619, that is, the result of $\left(\frac{240}{5·04}\right)$

Taking the franc or peseta at 9·523 pence we have

$$\frac{9\cdot523}{47\cdot619} = \cdot20\$ \text{ gold, and}$$

$$\frac{227\cdot27 \times \cdot20}{100} = \cdot4545\$ \text{ m/l (paper).}$$

The monetary unit of Brazil (Estados Unidos del Brazil) is the milreis. The 20 milreis in gold = 17·93 grammes, and, as the fineness is $\frac{11}{12}$ ths, it is equivalent to—

	17·93
Less $\frac{1}{12}$ th	1·494
	<hr style="width: 100%; border: 0; border-top: 1px solid black; margin: 5px 0;"/> 16·435 grammes of pure gold, <hr style="width: 100%; border: 0; border-top: 3px double black; margin: 5px 0;"/>

which, multiplied by 32·776 pence, which we ascertained in the early stage of our chapter, gives us 538·673, etc., as the British equivalent value of 20 milreis in gold, and $\frac{538\cdot673}{20} = 26\cdot93$ pence, the theoretical par of the milreis.

The currency, however, is paper, the value of the paper milreis having been fixed at 15 pence.

With regard to the monetary history of the United States of Brazil, we must go back to 1808 or thereabouts, when Dom Joao VI. fled from Portugal to Rio de Janeiro, the exchange at that time being in the neighbourhood of 65 to 70 pence per milreis. From that lofty

height it had descended to about 4s. when he returned in 1822. When he came all the money in the country was in gold, silver, and copper; when he left the Brasileiros found in its place copper and a legacy of paper in abundance. After passing through many vicissitudes, the value of the currency milreis was fixed by the Conversion Law of 1906, which was signed by Affonso Augusto Moreira Penna and David Campista. The object of the law in question was to confer some measure of stability upon the value of the currency, to provide for a gold reserve for the conversion of the inconvertible paper, and for the issue in place thereof of convertible paper. The Conversion Law of 1906 fixed the value of the currency milreis at 1s. 3d., and anyone may exchange at the Conversion Caisse or the Caixa de Conversao their notes for gold at 1s. 3d. or *vice versa*. The notes issued by the Conversion Caisse are legal tender, and their acceptance is obligatory for all contracts and payments, excepting in cases in which payment is decreed, undertaken, or contracted to be effected in gold, or shall be realised as at present at the legal rate of 27 pence per milreis, or in notes of the Conversion Caisse at their gold value, as established by law. One of the articles of the law provides that, by a

decree of the National Congress, the rate of exchange may be raised in the following circumstances—

(1) When the equivalent sterling value of the gold deposited at 15 pence amounts to £20,000,000 sterling ; and when

(2) The Conversion Caisse shall cease issuing notes when the total value of same in circulation reaches \$320·000:000.

Since writing the foregoing, allusion may be made to the increase in the fixed value of the milreis from 15 to 16 pence, as recently announced by cable from Rio, the Bill for which, already passed by the Chamber of Deputies, has been adopted by the Senate, and when signed by the President the fixation of the rate of exchange at 16 pence to the milreis will become law. The raising of the legal rate of the milreis, of course, reduces the value of the £1 sterling from 16 to 15 milreis. It need hardly be added that effect can only be given to the fixation of a rate of exchange when the Government guarantees the payment of the rate fixed in the same way as our Bank of England £5 note, which, although only a piece of paper, is of the exchangeable value of £5, because the Bank of England will always give £5 in gold in

exchange for it. The fixing of the value of the currency obviously is a matter attended by many difficulties, because of opposing interests, particularly in South American countries. In the case of a non-guaranteed currency, the home producer is usually favoured when the exchange rate of the monetary unit is low, inasmuch as he pays his wages and other forms of trading expense in the depreciated standard, and ships his produce for payment in gold. *Per contra*, the importer buys for payment in gold and sells for payment in depreciated paper. Similarly with British tramway and railway companies operating in countries with a depreciated paper currency. They receive in such circumstances their revenue in depreciated paper, which, to a considerable extent, has to be converted into gold for the purpose of paying home dividends and interests, and also for the payment of machinery and equipment purchases. A non-guaranteed or internal widely fluctuating exchange always acts as a detrimental clog upon the wheels of the machinery of real industry. That the Conversion Law of 1906, which fixed the legal rate of exchange at 15 pence, has given a much needed measure of stability to Brazilian currency and real trade is undoubted, the primary objects of the law being: (1) stability;

(2) accumulation of a gold reserve for the eventual conversion of the unconvertible paper in circulation, and its supersession by a currency convertible or exchangeable on presentation.

The new Bill, it is almost needless to state, aroused much past controversy. As we have seen, the 1906 law provided that when the amount deposited in the Caixa da Conversao reached £20,000,000 the rate of 15 pence per milreis could be altered, and as that sum was attained over six months ago speculation since has been rife as to the intentions of the Government. The limit under the new law it would appear is raised to £60,000,000, and the Caixa da Conversao, it is expected, will now commence to receive deposits in gold at 1s. 4d. per milreis up to £40,000,000. It will be remembered that the 1906 law was created specially (1) to receive gold coin; (2) to issue against such receipts bearer notes of an equivalent value to the gold received at the rate of 15 pence per milreis; (3) that the notes so issued by the Caisse shall be received and paid at sight to bearer by the Caisse in gold coin; (4) that when the total value of such notes in circulation reaches \$320,000,000, and the equivalent sterling value of the gold deposited at 15 pence amounts to £20,000,000, the rate of exchange may be raised

by a decree of the National Congress, and that when such limit has been attained the notes represented thereby in circulation shall be recalled within a period of not less than twelve months, after which they shall be payable for the next five years at a discount of 20 per cent. from the date of the first notice, and after such period their value shall be credited to the fund referred to in a subsequent article of the law into which we need not enter.

In the accounts of South American native undertakings of limited liability (*Sociedad anónima*) and in the methods of the *tenedores de libros* we find many expressions and forms which to the British Accountant and Auditor are quaint and interesting. For instance, we may learn in the accounts accompanying the *Memoria del Directorio* presentada a la *Junta-General de Accionistas* that the *Inspectores*, or *Revisors de Cuentas* (Auditors), certify that the *balance de los libros* (Balance Sheet) and the *Ganancias y Perdidas* (Profit and Loss Account) *conforme con los libros que nos han sido presentados*, which simply means in conformity with the ledger. But one could almost write a book on such matters and others incidental to the audit (*ajuste de cuentas*) of South American undertakings.

STORES STATEMENTS.

Periodically there should be sent to the London office a stores statement with schedules as shown below, the statement being journalised and posted to the credit of the stores account in the local ledger kept in the London office, and debited in accordance with the various allocations.

19 .

Dos. Particulars.	Currency.	Sterling at par.	Particulars.	Currency.	Sterling at par.
Stores on hand at commencement of period			Issues to Capital A/c as per schedule		
Stores received from London as per statement of invoices			Issues to Revenue A/c as per schedule		
Local purchases			Balance :—		
Invoices :—			In stores... ..		
Stores at Custom House			At Custom House		
Stores in transit			In transit ...		

Schedule of Stores Issued.

[illegible]

As to goods in transit at the end of the financial year, these are debited to Goods in Transit A/c, and credited to head office by the local office.

BILLS OF EXCHANGE.

Bills of exchange drawn by the local office upon the head office and given to creditors in payment of purchases and other considerations are by the local office credited to the London Office Account and debited to the personal or other account concerned. When accepted by the head office they are entered in the Bills Payable book, the individual items in which are posted to the debit of the Local Office Account, and the total credited to Bills Payable Account. When liquidated, cash is credited and Bills Payable Account debited. Bills, advised by the local office to the London office and in transit at the end of the financial year, are debited to the Local Office Account, and credited to Bills in Transit Account. When received and accepted they are of course recorded in the Bills Payable book, such individual entries being posted to the debit of Bills in Transit Account, and the total credited to Bills Payable Account.

CAPITAL ISSUES.

It sometimes happens that an issue of share capital or debentures is made in the country in which the industry is carried on. In some cases

the amount of foreign currency per share, debenture, or per so much of debenture stock usually at the par rate, is indicated in the prospectus, and in other cases the amount is expressed merely in sterling.

Usually no charge is made for the conversion of registered shares into bearer shares, a simple letter of application being all that is necessary ; but the applicant or purchaser pays the stamp duty thereon, though, in lieu thereof, a charge is made sometimes of, say, 1s. per warrant, which is authorised by the articles. When sending share warrants abroad to be delivered by the local bank in exchange for their face value, the usual charges incurred are—insurance for face value, postage and registration, and bank commission.

Sometimes a share department in the local office is created to facilitate the transfer of the stocks and shares in the Company ; but except in special cases it is not a practice to be commended.

Recently a case occurred in which a company registered in London had bought certain concessions in one of the South American States, and made a share profit upon the sale of some of them, distributing the profit in shares of the companies from which they had been

acquired. Owing to some inadvertence certain payments were made to persons who happened not to be on the register of members at the date when the dividend was declared, and it was therefore necessary in the circumstances to bring the amount into the profit and loss account by means of an adjustment account as a payment subject to confirmation of the General Meeting.

As we have seen if the rate of exchange with the foreign country in which the issue is made be expressed in British currency, the lower the rate the larger the sum in foreign currency that will be received by the Company. For instance, assuming the subscription in respect of 500 shares of £1 each at par, payable at the par rate in dollars, viz., 1s. 6d. \$, the amount to be received would be 6666·66. If, however, the £500 were paid at the exchange of the day, say 1s. 4d., the sum received in currency would be $(\frac{500}{1s. 4d.}) = \$7,500$. If the basis of the account keeping be par, the following entries would be made in the London books—local office debtor to share capital account £500, which at 1s. 6d. = \$6666·66; in the local books share subscription account would be debtor to London office for \$6666·66; whilst the bank would be debtor to share subscription for \$7,500, the

difference on the share subscription account, viz., \$833·34 being credited to, say, reserve.

The recent issue of a $4\frac{1}{2}$ per cent. Grand Duchy of Finland Government Railway Loan for £1,800,000 may be taken as an illustration of the working of the exchanges in a foreign loan. The loan was issued at the price of £92. 10s. per £100 Bond, the bonds being for specific sums bearing the Finnish, French, and Dutch equivalents at the exchanges of Finnish marks 25·15, francs 25·15, and florins 12·10 per £ sterling. The half-yearly interest coupons attached thereto are payable in London in sterling, in Finland in Finnish marks, in Amsterdam in florins, and in Switzerland in francs, at the rates of exchange indicated, the equivalent of the loan being in Finnish marks 45,270,000, in florins 21,780,000, and in francs 45,270,000. The loan is to be redeemed in 56 years by means of an accumulative sinking fund, by drawings when the price is above par, and by purchases when the price is below par, the Government reserving to itself the right to redeem the whole or any part of the loan on giving six months' notice. Drawn bonds are to be paid off in London in pounds sterling, and in Helsingfors, Basle, and Amsterdam, at the exchanges fixed on the bonds.

LOCAL SALARIES AND DIRECTORS' FEES.

Sometimes it is arranged that some of the local salaries, or the directors' fees, are payable in gold. For instance, we shall suppose that A, who is a local director, is paid locally £100 per annum by quarterly payments of £25. The rate of exchange obtaining on the last day of the quarter is, say, 24 pence per \$, the par rate being, say, 25. There will be paid to A then \$250 ($\frac{\$25}{24d.}$). The basis of the following *pro forma* entries of the transaction is par:—

Local Ledger.

<i>Dr.</i>	A.	<i>Cr.</i>
	\$	\$
Cash	250 | Directors' Fees	250
<i>Dr.</i>	DIRECTORS' FEES.	<i>Cr.</i>
	\$	\$
A.	250 | Exchange	10
<i>Dr.</i>	CASH.	<i>Cr.</i>
	\$	\$
	| A.	250
<i>Dr.</i>	EXCHANGE.	<i>Cr.</i>
	\$	
Directors' Fees	10 |	

Payments of salaries abroad are on varying bases, according to agreement. As an example, let us suppose that a British clerk is employed in Portugal at £156 per annum, or £13 per month. If he be paid in gold, a local exchange house at 5,480 rate, say, will give him 71\$240 currency in exchange for the £13 gold, as shown below. If, however, on the same day, say the last day of the month, the sight rate on London is $43\frac{3}{4}$, and he elects to be paid in currency at the sight rate ruling on the last day of each month, he would receive from the office 71\$315, a difference of 75 reis. On the other hand, he may take his £13 in gold and exchange it for currency as he may require it, at the risk of a favourable or unfavourable rate of exchange.

X Y Z.

CAMBIO E PAPEIS DE CREDITO.

£13	5,480	71	240
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£13 @ $43\frac{3}{4}$ = 71·315 reis.

£13 gold produces 71·240 reis.

· 75 reis.

£13 × 20 × 12 = 3,120 × 1,000 = 3,120,000
 ÷ 71,240 = 43·79 rate against 43·75.

Companies often guarantee the salaries of some of their local staff against fluctuations in the foreign rate of exchange, any extra expenditure due to that cause being so explained now and then by the chairmen when reviewing the profit and loss account for the financial year upon the occasion of the general meeting of the company.

EXCHANGE FLUCTUATION ACCOUNT.

Frequently reserves are created for any large or unexpected loss that may arise in adverse exchanges, but this is a matter entirely dealt with in the home office.

BOOKS AND RETURNS—GENERAL.

The books kept at the local office depend, of course, upon the nature of the undertaking acquired and worked, and the routine adopted in relation thereto. They will embrace, however, ledger, cash books, journal, purchase book, bills payable and receivable, and any other subsidiary books of account which the particular business

It is essential that there should be an efficient system of returns from the local office to the London office, the details of which again naturally depend upon the character and routine of the business pursued. In many mining enterprises, for example, it is customary for the company to arrange for the entire local management or working of the mine by recognised experts. These expert mining managers and engineers usually have offices in the locality or country in which the mine is situated, and it is not an uncommon occurrence to find these technical experts similarly managing or farming the mines of several companies.

In addition to the particular returns of the special business, the London office may receive *inter alia* cost statement, which is usually of a voluminous character, journal entries, and cash statement supported by vouchers with bank certificates, salaries and wages sheets with allocations, allocated stores accounts, and at the end of the financial year certified inventories of stocks, and closing entries.

As already indicated, a ledger should be kept in the London office termed a local office ledger, which should be written up from the systematic and certified account returns sent by the local office, and at the end of each financial year the trial balance from the local office should agree with the trial balance extracted from the local office ledger in the London office after the completion of the posting of the account returns referred to. The frequency with which these returns should be rendered is a matter entirely governed by the particular needs of the business. It is well to bear in mind, however, the amount of clerical work involved.

The trial balance is generally in the usual form. The following shows, however, a form for recording the extraction of the ledger balances in Portuguese.

BALANCETE DO RAZÃO em 31 de Janeiro de 1911.

Folios.	Contas.	Sommas.		Saldos.		Situação Económica.	
		Debito.	Credito.	Devedores.	Credores.	Activo.	Passivo.

Or as it is sometimes framed in Spanish.

Folios del Mayor.	Títulos de las Cuentas.	*Comprobacion.		†Saldos.		Balance de Situación.		
		Debe. Haber.		Debe.	Haber.	‡Movimiento.		§Especulación.
						Debe.	Haber.	

* Proof—totals of debits and credits.

† Balances.

‡ Equivalent of our balance sheet items.

§ Equivalent of our profit and loss items.

It is, of course, essential that the person in charge of the accounts at the local office should understand all closing and adjusting entries, and that certified schedules should accompany the local balance sheet and profit and loss account at the end of each year.

UNDERTAKINGS IN DEVELOPMENT STAGE.

With regard to the accounts of companies (say mining) which are for the time being practically entirely in the development stage, *i.e.*, non self supporting, the annual balance sheet published by the company usually takes the form illustrated below. Development expenditure, more or less, is, however, ever current in the progress of mining concerns.

The general expenditure, *i.e.*, expenditure outside specially indicated assets, such as machinery, buildings, and others, is shown in suitable groupings under the two titles, "London expenditure," and "local expenditure," as above. Sometimes, however, such expenditure is incorporated in a separate account, called a working account, as shown below, the balance of which is transferred to the balance sheet. The balance of the working account consists generally of expenditure to be written off against profit and loss when the revenue-earning stage has been reached.

The working account may be drawn without the inclusion therein of the London expenditure and Income.

Balance Sheet (*pro forma*).

Dr.					Cr.	
	£	s.	d.	£	s.	d.
Capital	40,000	0	0	20,000	0	0
Sundry Creditors:—				145	16	8
<i>London:</i>						
A B	£10,000	0	0			
Income Tax...	40	0	0			
General Charges	500	0	0			
<i>Local:</i>	10,540	0	0			
General Charges	36	9	2			
	10,576	9	2			
	£50,576	9	2			
				27,727	16	3
				2,702	16	3
				£50,576	9	2

Working Account.

Dr.					Cr.	
	£	s.	d.	£	s.	d.
General Expenditure, viz.:—						
<i>Local:</i>						
Development and General						
Charges	3,682	5	10			
<i>London:</i>						
General Charges	2,000	0	0			
D. Fees	800	0	0			
Exchange	66	5	0			
	2,866	5	0			
	£6,548	10	10			
				3,245	14	7
				600	0	0
				2,702	16	3
				£6,548	10	10

CLOSING AND AMALGAMATION OF LOCAL WITH HOME ACCOUNTS.

We may make here a few observations upon the usual features of amalgamating the local office accounts with those of the head office, valuation of balance of local profit and loss account, capital expenditure, and local floating or liquid assets and liabilities.

CLOSING THE ACCOUNTS.

All the individual balances of the profit and loss accounts in the London ledger relating to the London transactions may be transferred at the end of the financial year to a London office account from which the items are transferred to the general profit and loss account, or they may be transferred directly to the profit and loss account.

Similarly, all the individual balances of the accounts comprising the local profit and loss account in the local ledger may be transferred at the end of the financial year to a local profit and loss account, the balance of which is transferred to the debit or credit as the case may be of the

London office account. For example, if a profit, the local profit and loss account will be debited and London office account credited with the amount. In the London books of the London transactions a corresponding entry of the reception of the balance will be made by debiting the local office and crediting the general profit and loss account.

Excluding such local accounts as bank, cash, stores, stocks, personal debtors and creditors and other accounts of a circulating capital character, it is usual to transfer to the London office at the end of the financial year all expenditure assuming a fixed capital description, the treatment of the transfer of which is similar to that we have noticed in connection with the profit and loss account items.

The local capital expenditure for the year is valued either at the average remittance rate, or at the average market rate for the period. To arrive at the average in the latter case it is sufficient to take the rate current at the end of each month, and to divide the total by 12. In cases where the rate of exchange is expressed in British currency such valuation is necessary only when the average rate is less than par. The difference is credited to the capital expenditure account and debited to profit and loss, the operation

sometimes being performed by the local office at the conclusion of each year in which there has been capital expenditure, and a note of entry sent to the London office to be made in the local office ledger kept at that office. For instance, to take a simple example, supposing the capital expenditure is 1,000 dollars, the par rate 5s. per \$, and the average rate 4s. 6d. per \$, we have :—

Capital expenditure \$1,000 @ 5s.	=	£ 250
\$1,000 ,, 4s. 6d.	=	225
		<u>£25</u>

£25 @ 5s. per dollar = \$100 to be written off.

The balance of the profit and loss account may be similarly valued, whilst the local liquid assets and liabilities are valued at the rate obtaining at the date of the accounts by the head office.

Let us take the following statements, trial balance of the London books, local *pro forma* balance sheet and profit and loss account, and assume the following rates, viz.: Chilian dollar at par 1s. 6d., average rate 1s. 4d., rate at the end of the year 1s. 5d., the valuation of the capital expenditure having already being performed as described.

The accounts in the local ledger kept at the London office (which as previously described is

merely a summary of the accounts in the local ledger) will, of course, be agreed with the figures in the balance sheet and profit and loss account. The profit and loss account in the local ledger will have been closed by transferring the balance to the credit of the London office account (if a profit) and similar entries will be made in the local office ledger kept at the London office. In the London ledger (if a profit) local office account will be debited and a general profit and loss account credited with the balance of the local profit and loss account, to which general profit and loss account will be transferred the home accounts of income and expenditure appearing in that ledger.

A.—Trial Balance of London Books.

				<i>Dr.</i>	<i>Cr.</i>
				£	£
Share Capital Account	...	...			17,500
Temporary Loans	...	...	...		5,000
Local Office Account	...	...	...	15,000	
Directors' Fees	...	...	...	500	
Office and General Expenses	...	...	...	1,500	
Sundry Creditors	...	...	...		5,060
Income Tax	...	...	...		25
Rents	...	...	...	200	
Loan Interest	...	...	...	200	
Petty Cash	...	...	...	10	
Bank	...	...	...	10,175	
				<u>£27,585</u>	<u>£27,585</u>

B.—Local Pro forma Balance Sheet.

	\$		\$
London Office Account ...	200,000	Buildings ...	50,000
Sundry Creditors ...	1,000·75	Machinery ...	100,000
Bills Payable ...	2,000·50	Stocks ...	100,000
Profit and Loss Account ...	100,000	Stores in Transit	3,000
		Sundry Debtors ...	2,900
		Cash in hand ...	101·25
		Cash at Bank ...	47,000
	<u>\$303,001·25</u>		<u>\$303,001·25</u>

C.—Local Pro forma Loss and Profit Account.

	\$		\$
Directors' Fees ...	2,000	Rentals ...	142,500
Printing and Stationery ...	1,000	Sundry Sales ...	75,000
General Expenses...	7,000		
Salaries ...	20,000		
Wages ...	75,000		
Customs' Duties ...	4,000		
Judicial Charges ...	1,500		
Rents, Rates and Taxes ...	6,000		
Bad Debts ...	1,000		
Balance to Balance Sheet ...	100,000		
	<u>\$217,500</u>		<u>\$217,500</u>

Amalgamating the London and Local Accounts we have the following detailed Profit and Loss Account and Balance Sheet.

D.—Profit and Loss Account.

<i>Local Expenditure :</i>		\$		\$
Directors' Fees ...	2,000		Rentals	142,500
Printing and Stationery ...	1,000		Sundry Debts ...	75,000
General Expenses	7,000			
Salaries	20,000			
Wages	75,000			
Customs' Duties	4,000			
Judicial Charges	1,500			
Rents, Rates and Taxes	6,000			
Bad Debts	1,000			
Balance	100,000			
		\$217,500		\$217,500

<i>Expenditure in London :</i>			Balance \$100,000	£	s.	d.
Directors' Fees ...	£	s. d.	@ 1/4 =	...	6,666	13 4
	500	0 0				
Office and General Expenses	1,500	0 0				
Rents	200	0 0				
Loan Interest	200	0 0				
Exchange	624	19 11				
Balance carried to Balance Sheet	3,641	13 5				
	£6,666	13 4		£6,666	13 4	

Detailed Pro forma Balance Sheet.

[illegible]

The difference of exchange on the valuation of the floating assets and liabilities it will be seen is as follows :—

ASSETS.

	£	s.	d.	£	s.	d.
Stocks	416	13	4			
Stores in Transit	12	10	0			
Sundry Debtors	12	1	8			
Cash on hand	0	8	5			
Cash at Bankers	195	16	8			
	<hr/>			637	10	1

LIABILITIES.

Sundry Creditors	4	3	5			
Bills Payable	8	6	9			
	<hr/>			12	10	2
				<hr/>		
				£624	19	11
				<hr/> <hr/>		

The various Asset Accounts are therefore credited, and difference of exchange on floating Assets and Liabilities Account debited, with the differences indicated above, the latter account being credited with the difference of exchange in respect of the Liability Accounts which are debited therewith. The balance of the Exchange Account is, of course, transferred to Profit and Loss Account. It will be seen that the balance of the Profit and Loss Account is valued at 1s. 4d. There is thus a difference of exchange, viz.,

\$100,000 at 1s. 6d. (par) = £7,500 less \$100,000 at 1s. 4d. = £6,666. 13s. 4d., the sterling difference being £833. 6s. 8d. Local Office Account, and Profit and Loss Account having already been debited and credited with \$100,000 at 1s. 6d., viz., £7,500.

Profit and Loss account is debited with £833. 6s. 8d., and Exchange on Profit and Loss account credited; the latter being a credit balance is included in the balance sheet amongst the Sundry Creditors and Credit balances; but it should be carried to Reserve. It is, of course, a prudent measure to value the balance of the Profit and Loss Account, particularly when the rate is against the Company; but it is not necessary to do so in all cases.

Still assuming cases in which the variable rate of exchange is expressed in British currency, it may be noted that in instances where the local liquid liabilities are in excess of the liquid assets, their valuation will result in a credit balance, though the valuation rate be less than par. Such credit balance should not be taken to the credit of Profit and Loss Account, but included in the credit balances under Exchange Fluctuation Account.

Assuming the following example, and taking the par rate of the dollar at 1s. 6d., and the

valuation rate of the floating assets and liabilities at 1s. 4d., we have:—

	£	s.	d.		£	s.	d.
Capital	20,000	0	0	Machinery	20,000	0	0
Local Liquid				Do. (\$100,000)	7,500	0	0
Liabilities... ..	13,333	6	8	Liquid			
£ s. d.				Assets:—			
\$200,000				£ s. d.			
at 1/6 = 15,000	0	0		\$100,000			
\$200,000				at 1/6 = 7,500	0	0	6,666 13 4
at 1/4 = 13,333	6	8		\$100,000			
				at 1/4 = 6,666	13	4	
	<u>£1,666</u>	<u>13</u>	<u>4</u>		<u>£833</u>	<u>6</u>	<u>8</u>
Difference in							
Exchange	833	6	8				
	<u>£34,166</u>	<u>13</u>	<u>4</u>				
							<u>£34,166 13 4</u>

Let us assume the following data:—

Dollar, par, 1s. 6d.

Remitted to Local Office, £1,000 at 1s. 3d.

Local Salaries, Wages and Expenses, \$200.

Capital Expenditure, \$150.

It is proposed to value the local expenditure at 1s. 4d.

The entries in the London office are:—

CASH.

By Local Office ... £ 1,000

LOCAL OFFICE.

To Cash ... £ 1,000 |

The entries in the local books are:—

LONDON OFFICE.

To Exchange ... \$ 2,666·67 | By Cash — £1,000 \$
 at 1s. 3d. ... 16,000
 „ Exchange ... 1,666·69

CASH.

	\$		\$
To London Office...	16,000	| By Salaries, Wages,	
		&c. ...	200
		„ Capital Expen-	
		diture ...	150

CAPITAL EXPENDITURE.

	\$	
To Cash ...	150	|
		SALARIES, WAGES, &c.

	\$	
To Cash ...	200	|

EXCHANGE ON REMITTANCE.

	\$
| By London Office	2,666·67

EXCHANGE.

	\$	
To London Office	1,666·69	|

It will be seen that London office was credited with £1,000 at 1s. 3d., the actual rate, which produced \$16,000, and that cash was credited; but £1,000 at the par, viz., 1s. 6d. equals only \$13,333·33, a difference of \$2,666·67, which is debited to London office and credited to exchange on remittance. The balance of the London office at this stage is therefore (\$16,000—\$2,666·67) = \$13,333·33, which at 1s. 6d. = £1,000, and is the credit balance corresponding with the debit balance of £1,000 shown by the local office account in the London books. We proceed a stage further. At the end of the year, it is proposed to value the local currency at 1s. 4d.

Now, in order to balance the accounts as a whole and to preserve the similarity in amount of the balances of the "London office" and "Local office" accounts, it is necessary to credit London office with \$1,666·69 and to debit exchange with that sum, as shown—\$13,333·33 at 16 pence = £888. 17s. 9d. and £1,000—£888. 17s. 9d. = £111. 2s. 3d., which at 1s. 4d. = \$1,666·69. It will be seen that the balance of the London office account, viz., \$15,000 at 1s. 4d. the valuation rate = £1,000, which corresponds with the balance shown by the London books.

The balance is therefore as under, at 1s. 4d.:—

Account.	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash	—			1,000	0	0
Do. \$15,650... ..	1,043	6	8	—		
Capital Expenditure, \$150...	10	0	0	—		
Salaries, Wages, &c., \$200...	13	6	8	—		
Exchange on Remittance, } \$2,666·67 }	—			177	15	6
Exchange, \$1,666·69	111	2	2	—		
	<hr/> £1,177 15 6			<hr/> £1,177 15 6		

In the auditors' certificate the rate of valuation of the capital expenditure and of the floating assets and liabilities are generally stated.

Almost needless to state, it is essential that the journal entries consequent upon such valuations should be made fully and clearly.

SOUTH AMERICAN CURRENCIES.

In addition to those currencies of Sud America, which we have quoted, the following information in regard to the currencies of the other States of South America may be useful to those having to deal with the accounts and questions of finance of such States.

State.	Standard.	Par or Legal Rate.	Remarks.
Argentine Republic	Nominally gold (gold dollar).	47·577 pence = \$1 & \$5·04 = £1 gold	Practically paper. Gold premium 127·27, or 44 gold dollars = 100 paper.
Brazil ...	Nominally gold (milreis)	26·93 pence per £1.	Practically paper currency. Paper milreis is fixed by law at 16 pence in value.
Peru ...	Gold (sol).	24 pence	Recent quotation 1% prem. 90 d/s.
Ecuador ...	Gold (sucres)	24 pence	
Costa Rica ...	Nom. gold (colon)	23 pence	Paper currency; recent quotation 118½ %
Mexico ...	Silver (dollar)	24½ pence	Recent quotation sight rate 24·496
Chili ...	Nominally gold (dollar), practically paper	1/5·93 pence	Recent quotation 10 13/32 90 d/s.

State.	Standard.	Par or Legal Rate.	Remarks.
Guatemala ...	Silver (dollar) circulation paper	47½ pence	Paper currency ; recent quotation 750 %, <i>i.e.</i> , 750 paper for 100 U.S. gold.
Uruguay ...	Gold (peso or dollar)	50·98 pence	Recent quotation Montevideo 51 5/8 90 d/s.
Paraguay ...	Nom. gold (dollar)	47·577 pence	Paper currency : recent quotation 1,383 %
Nicaragua ...	Silver (dollar)	47½ pence	Silver and Bank and Government notes. Recent quotation 3 d/s 885 %
Bolivia ...	Silver (Boliviano or dollar)	20 pence	
San Salvador and Honduras }	Silver (dollar or peso)	47½ pence	Silver and bank notes. Recent quotation 173 % <i>e.g.</i> , 100 U.S.A. gold = 100 paper dollars.
Venezuela ...	Gold (dollar)	47½ pence	Recent quotation 8 d/s 5·04
Colombia ...	Nominally silver (dollar), practically paper	47½ pence	Recent quotation 90 d/s 9,600 % paper currency.

LOCAL ACCOUNTS IN MORE THAN ONE CURRENCY.

Sometimes it is desirable or necessary to arrange in certain circumstances for certain accounts in the local books to be kept in more than one currency. Let us take a practical example. A British company with its chief office in London, let us suppose, disposes of a large proportion of its produce by way of its Singapore branch office on consignment at Hong Kong, the Singapore branch drawing upon the Hong Kong agents from time to time for the proceeds of the shipments or obtaining it by telegraphic and other remittances.

The difference, it may be observed, between the value of the Singapore and the Hong Kong dollar is roughly 25 per cent.—that is to say, 100 Hong Kong dollars equals 75 Singapore dollars. On this basis, therefore, when converting Singapore dollars into Hong Kong dollars, we must add $33\frac{1}{3}$ per cent. to the former. The following represents the account of the A B C Company in Hong Kong in D E F's books in Singapore, the inner column on either side being utilised for the purpose of recording the Hong Kong currency, the outer columns being those used when balancing.

A B C, HONG KONG.

DR.

CR.

	Hong Kong Currency.	Singapore Currency.		Hong Kong Currency.	Singapore Currency.
To Shipments (Proceeds of A/c Sales)	900	675	By Draft D E F 1,000 @ 74	1,000	740
" Do.	1,000	750	" Charges	20	15
" Do.	350	262.50	" G H Cash	350	262.50
" Do.	2,000	1,500	" D/N Charges	30	22.50
" Do.	3,000	2,250	" Draft 1,000 @ 74½	1,000	745
" Do.	6,000	4,500	" T. T. 6,589.79 @ 75½	6,589.79	5,000
" D/N for Charges	66.66	50	" Telegram	5.75	4.32
" Exchange on 6,589.79 <i>per contra</i>		57.65	" Exchange on 1,000 @ 74		10
" @ 75½			" Do. on Charges 20		5
	13,316.66	10,045.15		8,995.54	6,804.32

With regard to the first six items on the debit side of the account, A B C is debited with the proceeds of account sales of shipments and Sales Account, credited both in Singapore currency. The proceeds, however, are realised in Hong Kong currency, and are therefore shown in the inner column, the conversion being on the 25 per cent. basis. The seventh item consists of a debit note by the Singapore branch for 50 Singapore dollars, which, at $33\frac{1}{3}$ per cent., gives us 66·66 Hong Kong dollars, A B C being debited and charges account credited with 50 dollars. The eighth item is for exchange, which is arrived at as follows:—It will be noticed that the sixth item on the credit side is represented by a telegraphic remittance by the Hong Kong agents of 6,589·79 Hong Kong dollars at $75\frac{7}{8}$, which realised actually 5,000 Singapore dollars. These 6,589·79 Hong Kong dollars at 75, the basis of the conversion of the debits, would have realised—

Hong Kong dollars	...	6,589·79
<i>Less</i> 25 per cent.	...	1,647·44

Singapore dollars ... 4,942·35 and

\$ c.

5,000 — 4,942·35 = 57·65 Singapore dollars.

There is thus a gain on exchange of the amount stated which is debited to A B C account in the Singapore currency column and credited to Exchange Account.

Looking at the credits, the Singapore branch house draws a draft on A B C payable to D E F for 740 Singapore dollars, which is paid by an emission or credit of 1,000 Hong Kong dollars. The second item is a charge by A B C of 20 Hong Kong dollars which is converted at 25 per cent. A B C pays 350 Hong Kong dollars to G H in the third item, which is similarly treated, whilst the fourth item requires no comment. D E F draws a draft for 1,000 Hong Kong dollars, the price of which is $74\frac{1}{2}$. The subsequent items of telegraphic transfer and telegram, after what has been stated, are self-explanatory.

With regard to the last two items of the credits, it will be seen there was a draft of 1,000 Hong Kong dollars converted at 74 = 740 Singapore dollars. The basis of the account being 75, there is thus a loss, viz. :—

				\$
1,000 Hong Kong dollars @ 75	=	750		
1,000 Hong Kong dollars @ 74	=	740		
				<hr/>
Loss	...	...		10
				<hr/>

A B C's account, therefore, is credited in the Singapore currency column with 10 dollars and exchange debited. There is also a draft of 1,000 Hong Kong dollars which yielded only 745 Singapore dollars, which similarly means a loss of five dollars, viz. :—

		\$
1,000 Hong Kong dollars @ 75	=	750
1,000 Hong Kong dollars @ 74½	=	745
Loss		<u>5</u>

the difference being treated in the same manner as that of the preceding item.

The effect of keeping the account as shown is that D E F has an exact copy of his account in A B C's books in Hong Kong currency, and knows his position at any time in regard to the account in that currency whilst assimilating it by means of the outer columns with the remainder of the accounts in his ledger, which are, of course, kept in Singapore currency.

The balance of the account in

(a) Hong Kong currency is—

		\$
Dr.		13,316·66
Cr.		8,995·54
		<u>4,321·12</u>

(b) Singapore currency is—

					\$
Dr.	...	...	...	...	10,045·15
Cr.	...	...	...	...	6,804·32
					<hr/>
Dr.	...	...	...	...	3,240·83
					<hr/>

the latter agreeing with (a) when it has been reduced by 25 per cent., which it should do, viz.:—

Hong Kong Balance	...	4,321·12
Deduct 25 per cent.	...	1,080·28
		<hr/>
Balance of A/c in Singapore currency	... ..	3,240·84
		<hr/>

The following illustrates a case in which three different currencies are involved; a company, say, with its registered office in London, its branch office in Valparaiso, Chili, but really operating for the larger part in the Argentine, the London office dealing with the Valparaiso office, which in turn deals with the Argentine office.

Let us assume the following miscellaneous transactions:—

LONDON OFFICE.

Share capital, fully paid in cash	...	£50,000
Lands and concessions, paid in cash...	...	£25,000
Remitted to Valparaiso	... ..	£10,000 at 11d.
Directors' fees paid	... ..	£150

Interest on deposit of £10,000	...	£250
Office rent, paid	... ..	£100
Administration expenses, paid	...	£650
Do. owing	...	£10

Creditors for goods shipped to Argentine, £500—in transit at balancing converted at 1s.

VALPARAISO OFFICE.

Local Directors' fees, paid	... ..	\$1,000
Office rent, paid	... ..	500
Administration charges, paid	... ..	2,000
Do. owing	... ..	100

Drew upon London office for £100, payable to A B, London, for goods received; draft accepted and paid by London office, converted at 1s. 2d.

Discounted with X Bank a draft for \$2,000, accepted by C D for goods sold, discount \$10.

Remitted to Argentine \$30,000 at 35 per cent.

Paid Argentine draft of \$2,000 at 35½ per cent. premium.

ARGENTINE OFFICE.

Salaries paid	... ..	\$1,000 m/n
Wages paid	... ..	3,000 „
Development work paid	... ..	3,000 „
Rents paid	... ..	19.36 oro.
Creditors for wages	... ..	100 m/n
Do. for materials	... ..	300 „
Stock of materials...	... ..	2,000 „

Bought materials from M N O \$2,000, and drew upon Valparaiso therefor.

LONDON BOOKS (STERLING).

SHARE CAPITAL.

| Cash	£50,000
------	-----	-----	---------

BANK.

Share Capital	...	£50,000	|	Lands and Conces-	
Interest on Deposit	250		|	sions	... .. £25,000
			|	Valparaiso Office	... 10,000
			|	Directors' Fees	... 150
			|	Deposit Account	... 10,000
			|	Office Rent...	... 100
			|	Administration	
			|	Charges	... .. 650

LANDS AND CONCESSIONS.

Cash	£25,000	|
------	-----	-----	---------	--

VALPARAISO OFFICE.

Cash	...	...	£10,000	|
Sundry Creditors	...	500		|

DIRECTORS' FEES.

Cash	£150	|
------	-----	-----	------	--

DEPOSIT.

Cash	£10,000	|
------	-----	-----	---------	--

INTEREST.

| Cash	£250
------	-----	-----	------

OFFICE RENT.

Cash	£100	|
------	-----	-----	------	--

ADMINISTRATION EXPENSES.

Cash	...	...	£650	|
Sundry Creditors	...	10		|

SUNDRY CREDITORS.

| Administration	
Charges	... .. £10
Valparaiso Office	... 500

VALPARAISO LEDGER IN VALPARAISO OFFICE (Chilian dollars).

BANK.

	\$		\$
Bills Receivable ...	2,000·00	Directors' Fees ...	1,000
London Office ...	218,181·81	Office Rent... ..	500
(£10,000 at 11d.)		Administration	
		Charges	2,000
		Discount	10
		Argentine Office ...	30,000
		Do.	2,710

DIRECTORS' FEES.

	\$
Cash	1,000

OFFICE RENT.

	\$
Cash	500

ADMINISTRATION CHARGES.

	\$
Cash	2,000
Sundry Creditors ...	100

SUNDRY CREDITORS.

	\$
Administration	
Charges	100

DISCOUNT.

	\$
Bank	10

LONDON OFFICE.

	\$
A B	1,714·28
Bank	218,181·81
Goods in Transit...	10,000·00

BILLS RECEIVABLE.

	\$		\$
C D	2,000	Bank	2,000

100

A B.

		\$			\$
London Office	...	1,714.28	|	Goods	... 1,714.28

GOODS.

		\$			\$
A B ...	...	1,714.28	|	C D ...	... 2,000.00

ARGENTINE OFFICE.

		\$	
Bank ...	...	30,000	|
Do. ...	...	2,710	|

GOODS IN TRANSIT.

		\$	
London Office	...	10,000	|

C D.

		\$			\$
Goods	...	2,000	|	Bills Receivable	... 2,000

ARGENTINE LEDGER IN ARGENTINE OFFICE (ARGENTINE DOLLARS M/N).

BANK.

		\$			\$
Valparaiso Office	...	19,500	|	Salaries	... 1,000
			|	Wages	... 3,000
			|	Development Work	3,000
			|	Rents	... 44
			|	Materials	... 2,000

MATERIALS.

		\$	
Bank...	...	2,000	|
Sundry Creditors	...	300	|
M N O	...	2,000	|

M N O.

	\$			\$
Bills drawn on Val-			Materials	2,000
paraiso Office ...	2,000			

BILLS DRAWN ON VALPARAISO OFFICE.

	\$			\$
Valparaiso Office ...	2,000	M N O		2,000

VALPARAISO OFFICE.

			\$
Bank			19,500
Bills drawn on Val-			
paraiso Office ...			2,000

SALARIES.

	\$	
Bank	1,000	

WAGES.

	\$	
Bank	3,000	
Sundry Creditors ...	100	

DEVELOPMENT WORK.

	\$	
Bank	3,000	

RENTS.

	\$	
Bank	44	

SUNDRY CREDITORS.

		\$
Wages		100
Materials		300

1.—LONDON LEDGER. TRIAL BALANCE (sterling).

	DR.	CR.
Share Capital		50,000
Bank	4,850	
Lands and Concessions...	25,000	
Valparaiso Office	10,500	
Directors' Fees	150	
Deposit	10,000	
Interest		250
Office Rent	100	
Administration Expenses	660	
Sundry Creditors		510
	<hr/>	<hr/>
	£50,760	£50,760
	<hr/>	<hr/>

2.—VALPARAISO LEDGER. TRIAL BALANCE
(Chilian dollars).

	DR.	CR.
Bank	183,961·81	
Directors' Fees	1,000	
Office Rent	500	
Administration		
Charges	2,100	
Sundry Creditors		100·00
Discount... ..	10	
London Office		229,896·09
Goods		285·72
Argentine Office...	32,710	
Goods in Transit	10,000	
	<hr/>	<hr/>
	\$230,281·81	\$230,281·81
	<hr/>	<hr/>

3.—ARGENTINE LEDGER. TRIAL BALANCE

(Argentine dollars m/n).

	DR.	CR.
Bank	10,456	
Salaries	1,000	
Wages	3,100	
Development Work ...	3,000	
Rents	44	
Sundry Creditors ...		400
Materials	4,300	
Valparaiso Office ...		21,500
	<hr/>	<hr/>
	\$21,900	\$21,900
	<hr/>	<hr/>

The next stage is the return of the transactions of the Argentine office to the Valparaiso office, which may be entered in a ledger called the Argentine Ledger, the trial balance of the entries, of course, being the same as (3). In that ledger there would be columns for Argentine currency and Chilian currency, the former being converted into the latter at that office. Let us assume the rate of conversion to be, say, 50 per cent. The Chili dollar is at "par" equal to 1s. 6d., but its actual value fluctuates greatly. It has been down to 4d. or 5d. per peso, but it is generally in the neighbourhood of 10d. to 1s. per dollar. The number of Argentine paper dollars to the £ at the fixed premium of 127·27

upon gold is 11·45. 5·04 gold dollars = £1
 ∴ if 227·27 paper = 100 gold, what number
 of paper dollars = 5·04 gold ?

$$\frac{227 \cdot 27 \times 5 \cdot 04}{100} = \$11 \cdot 45 \text{ paper.}$$

If, therefore, we take 50 per cent. as the conversion rate of Argentine curso legal into Chilian dollars, we must deduct on that basis $33\frac{1}{2}$ per cent. from the Chilian dollars when converting them into Argentine papel. For instance:—

	\$	Sterling.
100 Argentine \$ papel @ 11·45	to £	= 8 14 8
150 Chilian \$	„ 17·175	to £ = 8 14 8

The trial balance of the Argentine Ledger in the Valparaiso office would be as follows:—

	Argentine.	Chili.	Argentine.	Chili.
Bank	10,456	15,684	—	—
Salaries	1,000	1,500	—	—
Wages	3,100	4,650	—	—
Development Work.	3,000	4,500	—	—
Rents	44	66	—	—
Sundry Creditors ...	—	—	400	600
Materials	4,300	6,450	—	—
Valparaiso Office ...	—	—	21,500	32,250
	21,900	32,850	21,900	32,850

After the necessary entries have been made in the Argentine Ledger in the Valparaiso office, both in Argentine dollars and in Chilian dollars,

and the "Argentine Office Account" in the Valparaiso Ledger agreed with the "Valparaiso Office Account" in the Argentine Ledger, the usual certified entries in Chili currency would be sent to the London office, where they would be written up in the Valparaiso Ledger in the London office in Chilian dollars, that ledger containing columns for currency and sterling, the former being calculated (for conversion into sterling) at 17.175 \$ to the £. The entries sent to the London office in respect of Chilian transactions only, and as per the Chilian Ledger, would be converted at an agreed rate.

The foregoing is given simply as an illustration from actual practice. Details of other practices could be given by the writer, which vary according to the special circumstances; but the reader will be able from what has been outlined to formulate any system in which his services may be requisitioned.

The Valparaiso office, of course, would see that its Argentine office account agrees with the Valparaiso office account in the Argentine ledger; and the London office would see that the Chili office account in its Chili ledger agreed with the London office account in the Valparaiso ledger.

SET OF TRANSACTIONS WITH PRO FORMA ENTRIES.

The A B Railways and Tramways, Limited.

Currency peso, par value 1s. 6d.

LONDON OFFICE.		DECEMBER 31ST, 1906.	
Nominal share capital	150,000	£1	
ordinary shares, fully paid	...	£150,000	
First Mortgage Debentures issued at par, 5 per cent.	...	...	60,000
Amount carried forward after allocating £10,500 for f.i.t. dividend, £300 outstanding at 31st December, 1907	...	...	10,000
Preliminary expenses	...	...	7,000
Bank	...	...	10,300
Sundry debtors (received during sub- sequent year)	...	...	500
Sundry creditors (paid during sub- sequent year)	...	...	1,050
Payments in advance	...	...	110
Investments	...	...	5,000
Debenture sinking fund accumulated out of profits and invested separately			5,000
Debenture interest unclaimed (claimed in 1907)	...	...	1,425
Dividends unclaimed (claimed in 1907)			735

DECEMBER 31ST, 1907.

Directors' fees paid £1,000, accrued £250.

General administration and office expenses paid, £3,500; accrued, £100 and £50; sundry creditors for goods shipped, £2,350; interest on investment received and added to latter, £250; bills payable for goods shipped, £1,000; goods shipped and paid for, £6,000; trustee fees paid, £100; discounts on purchases, £150; debenture interest for half-year, 1st July, paid to debenture interest account at bank, less tax, 1s. of which is outstanding at 31st December, 1907, £475; cash received from local office, £24,000; insurance paid by London office for one year from 1st July on account of local office, £370; remitted to local office, £700.

LOCAL OFFICE. DECEMBER 31ST, 1906.

Construction and equipment of				\$
railways and tramways	...	...	...	1,840,000
Land and buildings	...	...	...	560,000
Rolling stock	...	...	...	333,333·33
Stores	...	...	...	24,000
Bank	...	...	...	120,000

DECEMBER 31ST, 1907.

Traffic receipts received, \$1,066,666·66; owing, \$13,333·33; sundry discounts on local purchases, \$3,666·66; realised profit on sale of stores which

cost \$4,666·66, \$933·33; purchase of stores, \$133,333·33 paid, and owing \$6,666·66; general administration expenses paid and owing, \$63,333·33 and \$10,000 respectively.

	Operating.	Capital.	Repairs and Maintenance.
Wages paid ...	\$160,000	\$13,333·33	\$80,000
„ owing ...	3,600		1,333·33
Stores used ...	66,666·66	8,666·66	26,666·66
Salaries paid ...	32,000		

Drew on London Office on 21st December at two months for £1,000. Bill in transit.

Remitted to London, \$360,000.

Received remittance from London, \$12,000.

Our starting point is a *pro forma* balance sheet at 31st December, 1906, which, in the case of the London Books, is as follows:—

Share Capital ...	£150,000	Sundry Debtors ...	£500
Debentures ...	60,000	Preliminary Ex-	
Debenture Sinking		penses ...	7,000
Fund ...	5,000	Payments in Ad-	
Sundry Creditors...	1,050	vance ...	110
Unclaimed Deben-		Investments ...	5,000
ture Interest ...	1,425	Bank ...	10,300
Unclaimed Divi-		Local Office ...	215,800
dends ...	735		
Profit and Loss			
Account ...	20,500		
	<u>£238,710</u>		<u>£238,710</u>

The *pro forma* balance sheet of the local books is as follows:—

London Office	\$2,877,333·33	Construction	
Note.—At 1/6		and Equip-	
= £215,800,		ment Ac-	
balance of		count ...	\$1,840,000
Local Office		Land and	
Account in		Buildings...	560,000
London		Rolling Stock	333,333·33
Ledger.		Bank... ..	120,000
		Stores ...	24,000
	<u>\$2,877,333·33</u>		<u>\$2,877,333·33</u>

The *pro forma* ledger entries of the London transactions are as follow:—

SHARE CAPITAL.

	£
By Sundries ...	150,000

DEBENTURES.

	£
By Sundries ...	60,000

SUNDRY CREDITORS.

	£		£
To Cash	1,050	By Sundries ...	1,050
		„ Local Office for	
		Goods ...	2,350

DEBENTURE SINKING FUND.

	£
By Sundries ...	5,000

SUNDRY PERSONS FOR DEBENTURE INTEREST.

	£		£
To Bank, D. I.		By Sundries ...	1,425
Account ...	1,425	„ Debenture	
„ Do. ...	950	Interest Account	1,425
		„ Do. ...	1,425

INTEREST.

	£
By Bank ...	250

SUNDRY PERSONS FOR DIVIDENDS.

	£		£
To Bank ...	735	By Sundries ...	735
„ Do. ...	10,200	„ Profit and Loss	10,500

SUNDRY PERSONS FOR DIRECTORS' FEES.

	£
By Directors' Fees	250

PROFIT AND LOSS.

	£		£
To Sundry Persons for Dividends	10,500	By Sundries ...	20,500
„ Payments in Advance ...	110		

DIRECTORS' FEES.

	£
To Bank ...	950
„ Income Tax ...	50
„ Sundry Directors	250

INCOME TAX.

	£
By Directors' Fees ...	50
„ Trustees' Fees ...	5
„ Debenture Interest	75
„ Do. ...	75

PRELIMINARY EXPENSES.

	£
To Sundries ...	7,000

BANK (ACCOUNT CURRENT).

	£		£
To Sundries ...	10,300	By Local Office ...	700
„ Sundry Debtors	500	„ Sundry Persons	
„ Interest...	250	for Dividend	735
„ Local Office ...	24,000	„ Dividend Account	10,500
		„ Sundry Creditors	1,050
		„ Directors' Fees	950
		„ General	
		Administration	
		Expenses ...	3,500
		„ Investment	
		Account ..	250
		„ Local Office ...	5,850
		„ Trustees' Fees...	95
		„ Debenture Inter-	
		est Account	
		(Sundry Persons)	1,425
		„ Do. ...	1,425
		„ Insurance (Local	
		Office) ...	370

SUNDRY PERSONS FOR GENERAL ADMINISTRATION
EXPENSES.

	£
By General	
Administration	
Expenses ...	100
„ Do. ...	50

SUNDRY DEBTORS.

	£		£
To Sundries ...	500	By Cash ...	500

GENERAL ADMINISTRATION EXPENSES.

	£	
To Cash	3,500	
„ Sundry Persons	100	
„ Do.	50	

DISCOUNTS.

	£
By London Office (Goods Shipped)	150

PAYMENTS IN ADVANCE.

	£		£
To Sundries ...	110	By Profit and Loss Account ...	110

INVESTMENT.

	£
To Sundries ...	5,000
„ Interest ...	250

BANK (DIVIDEND ACCOUNT).

	£		£
To Bank (Current Account) ...	10,500	By Sundry Persons	10,200

BANK (DEBENTURE INTEREST ACCOUNT).

	£		£
To Cash	1,425	By Sundry Persons	950

BILLS PAYABLE.

	£
| By Local Office ...	1,000

LOCAL OFFICE.

	£		£
To Sundries—		By Bank ...	24,000
\$2,877,333.33 ...	215,800	„ Exchange ...	3,000
„ Sundry Creditors			
for goods shipped	2,350		
„ Bills payable for			
goods shipped	1,000		
„ Bank and Dis-			
count for goods			
shipped ...	6,000		
„ Do. (insurance			
for one year) ...	370		
„ Bills in transit...	1,000		
„ Bank (remittance)	700		

TRUSTEE FEES.

	£
To Cash ...	95
„ Income Tax ...	5

DEBENTURE INTEREST ACCOUNT.

	£
To Sundry Persons	1,425
„ Income Tax ...	75
„ Sundry Persons.	1,425
„ Income Tax ...	75

EXCHANGE.

	£
To Local Office ...	3,000

BILLS IN TRANSIT.

	£
| By Local Office ...	1,000

The *pro forma* entries in the local ledger are :—

LONDON OFFICE.

\$		\$	
To Bank	... 360,000	By Sundries	... 2,877,833·33
		„ Bills payable	13,333·33
		„ Bank	... 9,333·33
		„ Stores ex London	13,333·33
		„ Do.	... 80,000
		„ Do.	... 31,333·33
		„ Insurance	... 4,933·33

CONSTRUCTION AND EQUIPMENT OF RAILWAYS, ETC.

\$	
To Sundries	.. 1,840,000 |

LAND AND BUILDINGS.

\$	
To Sundries	... 560,000 |

ROLLING STOCK.

\$	
To Sundries	... 333,333·33 |

BANK.

\$		\$	
To Sundries	... 120,000	By Stores	... 133,333·33
„ Traffic		„ Operating	
Receipts	... 1,066,666·66	Wages	... 160,000
„ Sales	... 5,599·99	„ G. A. Expenses	63,333·33
„ London		„ Salaries	... 32,000
Office	... 12,000	„ Wages Cap...	13,333·33
		„ Do. R. & M...	80,000
		„ London	
		Office	... 360,000
		„ G. M. Salary	15,000

STORES.

	\$		\$
To Sundries ...	24,000	| By Sales ...	4,666·66
„ Discounts ...	3,666·66	„ Operating	
„ Bank ...	133,333·33	Stores ...	66,666·66
„ Sundry Creditors ...	6,666·66	„ Stores Cap. .	8,666·66
		„ R. & M. ...	26,666·66

TRAFFIC RECEIPTS.

	\$
| By Bank ...	1,066,666·66
„ Sundry Debtors ...	13,333·33

SUNDRY DEBTORS.

	\$
To Traffic Receipts	13,333·33 |

DISCOUNTS.

	\$
| By Stores ...	3,666·66

SALES.

	\$		\$
To Stores... ...	4,666·66	| By Bank ...	5,599·99
„ Profit and Loss Account ...	933·33		

PROFIT AND LOSS ACCOUNT.

	\$
| By Profit on Sales	933·33

SUNDRY CREDITORS.

	\$
| By Stores ...	6,666·66
„ G. A. Expenses	10,000
„ Wages ...	3,600
„ R. & M. ...	1,333·33

GENERAL ADMINISTRATION EXPENSES.

	\$	
To Bank ...	63,333·33	|
„ Sundry Creditors	10,000	|

OPERATING WAGES.

	\$	
To Bank ...	160,000	|
„ Sundry Creditors	3,600	|

OPERATING STORES.

	\$	
To Stores...	66,666·66	|

SALARIES.

	\$	
To Bank ...	32,000	|

STORES EX LONDON.

	\$	
To London Office	13,333·33	|
„ Do.	80,000	|
„ Do.	31,333·33	|

INSURANCE.

	\$		\$
To London Office	4,933·33	| By Payments in	
		Advance ...	2,577·77

PAYMENTS IN ADVANCE.

	\$	
To Insurance ...	2,577·77	|

CAPITAL EXPENDITURE.

	\$	
To Wages ...	13,333·33	|
„ Stores...	8,666·66	|

REPAIRS AND MAINTENANCE.

	\$	
To Wages	...	80,000 |
„ „	...	1,333·33 |
„ Stores...	...	26,666·66 |

BILLS DRAWN ON LONDON OFFICE.

	\$	
To London Office	13,333·33 |	

G. M. SALARY.

	\$	
To Bank ...	...	15,000 |

EXCHANGE.

	| By Profit on Re-	\$
	mittance	... 2,666·67

The student may now prepare the profit and loss account and balance sheet on the lines already described.

The remittance of £700 to the local office produced 12,000\$. £700 at par = 9,333·33\$, so that there is a profit on exchange of 2,666·67\$.

COMMERCIAL CODES.

In framing a system of accounting for use abroad it is well to note incidentally the requirements of the commercial code of the country in which the business will be pursued.

The Portuguese Code provides that all merchants are to possess for the record of their commercial operations books which are facil, clara e precisamente, *i.e.*, understandable, clear and precise. The number of the special books and their design are matters which are left to the merchant's choice and decision, provided that he does not fail to possess the books which the law of the land specifies as indispensable. The indispensable books are Inventario e balanços (inventory and balances), Diario (journal), Razão (ledger) and Copiador (press copy book). The books of inventory and journal before being written in are to be exhibited to the presiding Judge of the Tribunal Comercio, who will number and initial the pages and so forth.

The journal serves for merchants to register therein day by day in order of date, in separate settings, their transactions, whilst the "inventory book and balances" is commenced by the enrolment therein of all the "activo" and "pasivo" (assets and liabilities).

The SpanishCodigo provides for un libro de inventarios y balance, un libro Diario, un libro Mayor y un copiador o' copiadores de cartas y telegramas.

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